

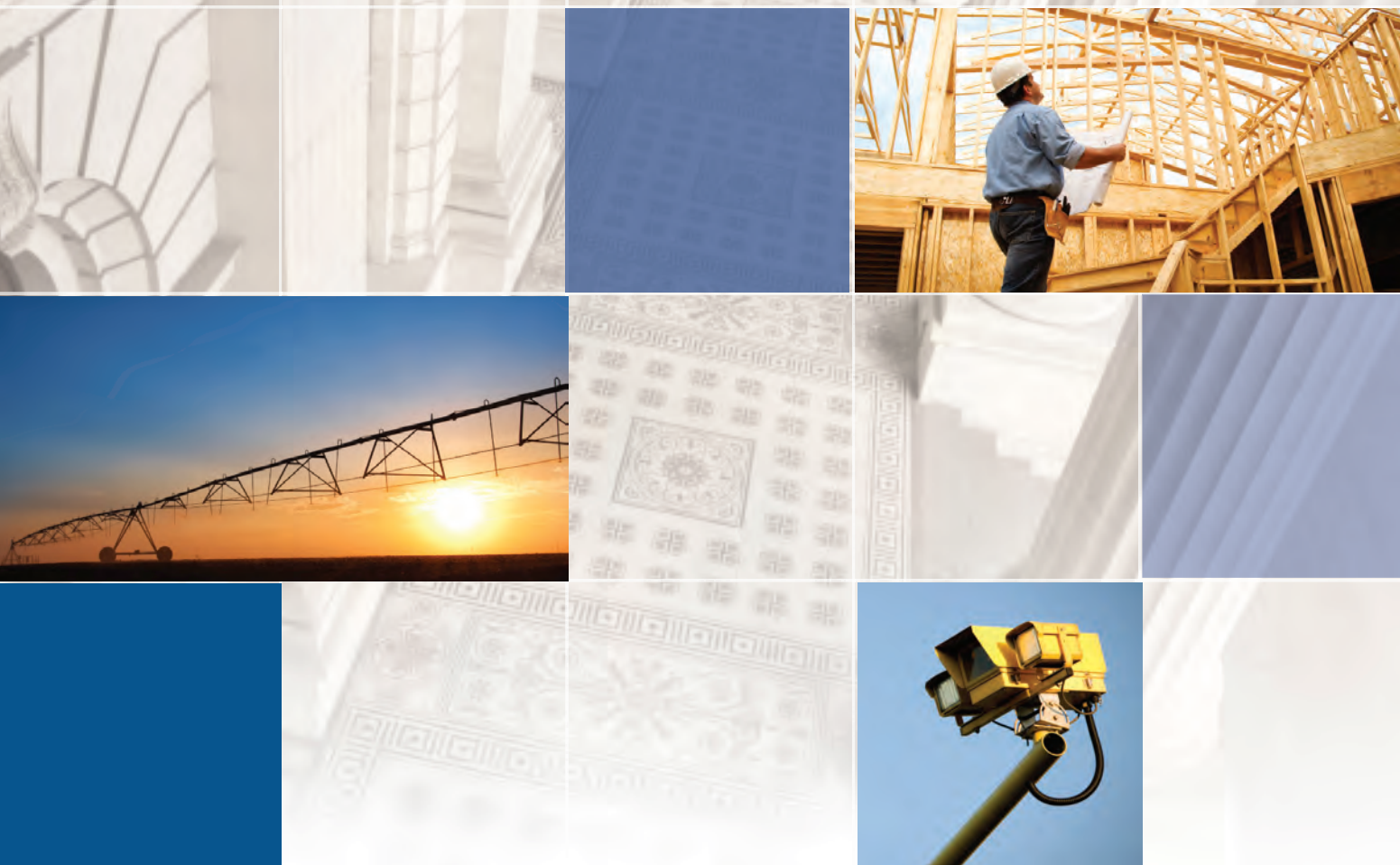


Victorian Auditor-General's Office

# Annual Report

2011–12

## 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 2012.



D D R Pearson  
Auditor-General  
Melbourne  
24 August 2012

# Introduction

The Victorian Auditor-General's Office (VAGO) provides the Victorian Parliament with assurance about the financial integrity of the state and the efficiency, economy and effectiveness of public sector performance.

## Principal legislation

The *Constitution Act 1975*, Part V, Division 3 governs the appointment and independence of the Auditor-General. Parliament's Public Accounts and Estimates Committee (PAEC) recommends the appointment of the Auditor-General, who can only be removed from office by a resolution from both Houses of Parliament.

The *Audit Act 1994* defines the powers and responsibilities of the Auditor-General and VAGO.

## Audit responsibilities

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

- conduct attest audits of financial statements of public sector organisations
- audit the annual financial report of the state
- review the estimated financial statements within the State Budget Papers
- conduct performance audits focusing on the economic, efficient and effective use of public resources to achieve public program objectives
- give regard as to whether there has been any wastage of public resources, or any lack of probity or financial prudence in the use of public resources
- report the results of audits to Parliament.

The Auditor-General's mandate includes government departments, public bodies, educational institutions, public hospitals and local government authorities.

The Auditor-General also conducts audits to determine whether financial benefits that agencies provide to non-government bodies are applied economically, efficiently and effectively.

## 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. The Act, however, recognises the Auditor-General's ultimate independence, autonomy and direct accountability to Parliament.

This annual report presents our achievements against the *Annual Plan 2011–12* which was tabled in Parliament on 24 May 2011. The plan documented our projected key outcomes and outputs, influences on the public sector and major areas of audit interest for the year and the three subsequent years.



### Available resources

At 30 June 2012, we:

- had 176 in-house staff (170 at 30 June 2011)
- engaged 41 audit service providers (40 during 2010–11)
- received \$36.96 million in funding from Parliament (\$36.16 million in 2010–11).



### Financial management

Our net financial result for the year was a surplus of \$578 173 (surplus of \$515 847 in 2010–11).

Attest audit fee income for the year was \$22.55 million (\$21.90 million in 2010–11).

**VAGO**

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

The President  
Legislative Council  
Parliament House  
Melbourne Vic 3002

The Speaker  
Legislative Assembly  
Parliament House  
Melbourne Vic 3002

Dear Presiding Officers

I am pleased to transmit, in accordance with section 7B of the *Audit Act 1994*, my annual report of the Victorian Auditor-General's Office for the year ended 30 June 2012 for presentation to Parliament.

D D R Pearson  
*Auditor-General*

24 August 2012

# At a glance

## Reports and advice

### Quantity

We tabled 37 reports in Parliament:

- 29 performance audit reports
- five attest audit reports
- one report on the state's annual financial report
- one annual plan
- one annual report.

### Quality

93 per cent of Parliamentarians who responded to surveys were satisfied with our reports. External assessors scored reports they reviewed better than our target of 80 per cent.

### Timeliness

- 87 per cent of reports were tabled within one month of planned date.
- 99 per cent of inquiries were responded to within 28 days.

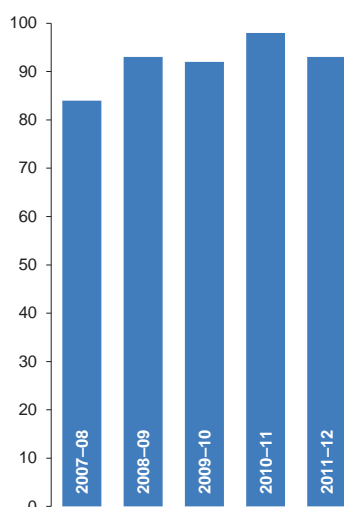
### Cost

- Total cost for reports and advice was \$13.7 million.
- Average performance audit report cost was \$429 827, ranging from \$190 000 to \$1 025 000.
- Average attest audit report cost was \$185 000, ranging from \$155 000 to \$205 000.

### Future focus

We will consolidate the alignment of audit topics with community interest, and further improve report quality and stakeholder engagement.

Parliamentarians satisfaction with VAGO reports and services (per cent)



## Audit opinions

### Quantity

We issued:

- 563 opinions on financial statements including:
  - one opinion on the state's annual financial report
  - one review opinion on the government's estimated financial statements
- 115 opinions on non-financial performance statements.

### Quality

External reviews found all audits assessed complied in all material aspects with the standards.

### Timeliness

- 99 per cent of audit opinions were issued within statutory time lines.
- 96 per cent of management letters were issued within established time lines.

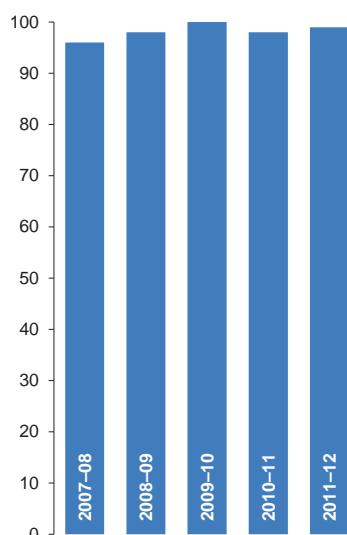
### Cost

- Total cost for attest audits was \$22.8 million.
- Average attest audit cost was \$40 497, ranging from \$580 to \$426 000.

### Future focus

We will encourage improvement in performance reporting and further leverage the sector's investment in accrual accounting.

Audit opinions issued within the statutory deadline (per cent)



# Promoting accountability

## Impact of audits

- References to our audits in Parliamentary debates were up 52 per cent to 262.
- 84 per cent of Parliamentarians who responded to surveys said reports addressed their key areas of interest and 79 per cent said our attest audit reports helped them monitor public sector accountability and financial performance.
- 91 per cent of audit recommendations from 2010–11 were fully accepted.
- 699 media articles or broadcast items mentioned our reports.

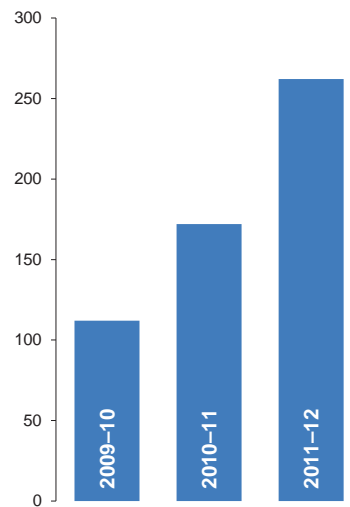
## Leveraging our experience

- We participated in audit networks and collaborated with other integrity bodies, such as the Victorian Ombudsman.
- We supported the Public Accounts and Estimates Committee's follow-up inquiries of our audits.
- We contributed to two other Parliamentary inquiries.
- The Auditor-General made 23 speeches.

## Future focus

Next year we will finalise our preparation for the next triennial performance audit of the office. This will include ongoing work on our quality framework, and responding to recent peer review recommendations.

References to VAGO reports in Parliamentary debate



# Managing VAGO

## Our staff

- 87.5 per cent of our staff hold qualifications at bachelor level or higher.
- 2.8 per cent hold or were studying for a PhD.
- VAGO staff spent an average 6.1 days in training per person

## Workplace and environment

- We met all our occupational health and safety indicators.
- Our recycling activity is significantly better than average.

## Future focus

We will finalise the realignment of our corporate and business support functions to better support audit operations.

## Benchmarking our activities

Our costs compare well with other Australian audit offices, particularly given our overall higher proportion of performance audits undertaken:

- Total audit cost as a proportion of public sector transactions was 0.30 (national average 0.35).
- Total audit cost as a proportion of public sector assets was 0.12 (national average of 0.17).

## Financial summary 2011–12 and 2010–11

Financial summary	2011–12 (\$'000)	2010–11 (\$'000)	Change (per cent)	
Operating revenue	37 120	36 490	▲	1.7
Operating expenses	36 542	35 974	▲	1.6
Total assets	13 445	12 712	▲	5.8
Total liabilities	6 787	6 631	▲	2.4
Surplus/(deficit)	578	516	▲	12.0
Net equity	6 658	6 081	▲	9.5



[Figure 1] Five-year statistics

Five-year statistics		2011–12	2010–11	2009–10	2008–09	2007–08
<b>Reports tabled in Parliament</b>						
Report of the Auditor-General on the finances of the state	(number)	1	1	1	1	1
Reports on public sector agencies' financial statements	(number)	5	6	5	3	3
Performance audit reports	(number)	29	30	26	26	29
External assessment of Parliamentary reports	(per cent)	83	–	–	–	–
Parliamentarian satisfaction with reports and services	(per cent)	93	98	92	92	83
<b>Audit reports on financial statements</b>						
Audit responsibilities (entities at 30 June 2012)	(number)	561	551	557	587	621
Unqualified opinions issued during reporting year	(number)	545	547	553	588	633
Disclaimed opinions issued during reporting year <sup>(a)</sup>	(number)	14	–	–	–	–
Qualified opinions issued during reporting year	(number)	4	5	4	4	7
Total opinions issued during reporting year	(number)	563	551	557	592	640
Audit opinions issued within time frame	(per cent)	99	99	100	98	96
Audits externally reviewed meet standards	(per cent)	100	–	–	–	–
<b>Audit reports on performance statements</b>						
<i>Audit reports on local government performance statements</i>						
Unqualified opinions issued during reporting year	(number)	77	77	77	78	79
Qualified opinions issued during reporting year	(number)	2	1	1	1	–
Total opinions issued during reporting year	(number)	79	78	78	79	79
<i>Audit reports on regional water authority performance statements</i>						
Unqualified opinions issued during reporting year	(number)	16	15	15	16	15
Qualified opinions issued during reporting year	(number)	–	–	–	–	1
Total opinions issued during reporting year	(number)	16	15	15	16	16
<i>Audit reports on technical and further education institute performance statements</i>						
Unqualified opinions issued during reporting year	(number)	20	20	20	19	19
Qualified opinions issued during reporting year	(number)	–	–	–	–	–
Total opinions issued during reporting year	(number)	20	20	20	19	19
<b>Resources</b>						
In-house staff	(number)	176	170	173	153	153
Attest audit service providers	(number)	41	40	36	34	36
Average days sick leave per employee	(number)	6.4	7.2	6.2	7.1	5.6
Workers compensation claims	(number)	5	4	4	3	1
Injuries reported	(number)	4	4	4	3	–
Grievances lodged	(number)	5	–	2	2	1
Staff training and professional development per employee	(days)	6.1	6.7	9.7	6.4	10.1
<b>Financial management</b>						
Expenditure on audit service providers	(\$million)	10.8	10.2	9.5	9.7	8.6
Revenue from audit fees	(\$million)	22.5	21.9	20.8	19.3	17.9
Operating surplus/(deficit)	(\$million)	0.6	0.5	0.8	(1.5)	(1.9)
Assets	(\$million)	13.4	12.7	11.4	10.9	11.3
Liabilities	(\$million)	6.8	6.6	5.8	6.1	4.8

(a) During 2010-11 the state received entities as settlement of a 17-year debenture created as part of the state's privatisation of electricity assets. There was insufficient evidence to support the transactions and balances of those entities, and therefore we issued disclaimed opinions for 14 entities.

# Auditor-General's Review

This has been a challenging year for the Victorian public sector. The economic uncertainty of the past few years has led to significant fiscal austerity requiring public sector managers to be even more efficient and economical in delivering services.

When budgets are cut, VAGO's role as the independent external auditor becomes even more important. As the public sector strives to maintain performance with fewer resources there is greater risk that staff take shortcuts and apply less rigour in their daily activities. Independent scrutiny is therefore crucial for assuring that government is spending public money to maximise outcomes while not compromising accountability.

We appreciate the pressures that our audited agencies are facing, and we will continue to help agencies identify opportunities for the more efficient and effective use of resources.

## Persistent issues across the public sector

For three years now, we have looked across the results of each year's audit program and identified persistent public sector challenges and weakness. These include managing the performance of outsourced services, the quality of oversight, the evidentiary basis for planning and decision-making, and reporting performance meaningfully.

To some extent, the pattern of these persistent issues is the product of our risk-based approach to selecting performance audit topics and focus areas for attest audits. Yet the shortcomings we continue to encounter are generally foreseeable.

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*'Agencies can improve both outcomes and accountability—achieving one does not have to compromise the other.'*

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Our analysis shows that focused purposeful management, where programs are managed for delivering intended outcomes rather than relying solely on processes, is the recurring missing element. Agencies can improve both outcomes and accountability—achieving one does not have to compromise the other.

I have shared the findings of our analysis extensively with ministers, departmental secretaries, agencies, the private sector, and through public addresses. These insights are generally received enthusiastically, with many people drawing from them to inform their efforts to improve public management.

It is worrying that in the main, the same issues recur every year. I acknowledge that real change takes time, but the frequency with which the same problems recur is troubling. It suggests that these weaknesses are cultural, pervasive, and deeply entrenched across the public sector.

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*'...real change takes time, but the frequency with which the same problems recur is troubling.'*

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One of the recurring findings concerns managing performance when services are outsourced or devolved. Over the past 20 or so years, delivery of government services has increasingly been outsourced to the private sector.



While services may be at arm's length, this does not mean the funding agency is no longer accountable for good, efficient service delivery. Activities can be outsourced—but accountability for outcomes cannot. Yet we continue to see insufficient monitoring and the emergence of gaps in governance. Consequently, our audits often recommend that departments strengthen their oversight.

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*'Activities can be outsourced—but accountability for outcomes cannot.'*

---

The other side of this coin is the deficiencies we repeatedly find in performance reporting. An adequate performance reporting framework is crucial for harnessing the benefits of outsourcing, and yet our audits continually conclude that few agencies use relevant and appropriate performance measures that are reported in ways the community can understand. This issue is not restricted to outsourced services, but is pervasive across the public sector.

These themes have been provided to the Better Services Implementation Taskforce, which is looking at options for more efficient and innovative service delivery in the public sector. This recently created taskforce, as well as the Independent Review of State Finances, provide the opportunity to address these persistent themes. I urge government to continue its work in seeking to address these weaknesses.

## Addressing the diminishing audit mandate

My ability to adequately audit these issues has been diminished rapidly because my audit mandate is outdated. The current audit legislation does not reflect the past two decades of change in approach to service delivery. Because service delivery increasingly involves private sector providers, amendments to give 'follow the dollar' powers are necessary if the traditional comprehensive audit mandate is to be maintained.

2011–12 has been a significant year in relation to the audit mandate at state and national levels, with 'follow the dollar' powers implemented in most Australian jurisdictions. This represents a major shift in the external audit and accountability landscape. These powers now exist in varying degrees in the Northern Territory, Queensland, Tasmania, Western Australia, and nationally. We hope that the impetus for change arising from the Public Accounts and Estimates Committee's 2010 Inquiry into Victoria's *Audit Act 1994* is not lost. We look forward to legislative reform being placed back on the agenda as a high priority.

We are also seeking amendments to the Act to allow us to undertake joint audits and share certain information with interstate and national audit offices. This would allow us to keep pace with the national reform agenda of the Council of Australian Governments and the state's integrity reforms.



As these arrangements are not available under our current legislation, we have been trialling new types of projects and ways we can collaborate with other integrity bodies, to the extent possible within the current restrictions of the Act. We are taking part in a collaborative performance audit of homelessness with other audit offices, and we have seconded staff to the Victorian Ombudsman in order to facilitate a more joined-up approach.

I am pleased to see that sharing information and undertaking joint investigations is on the government's agenda in relation to the Independent Broad-based Anti-corruption Commission. As the Audit Act stands, however, my ability to join a collaborative investigation and share information is limited. Therefore, until the Act is amended, the coherence of the state's integrity system will remain in doubt.

### Continuous improvement at VAGO

As the external audit landscape changes, in-house we continue to focus on improving our practices and products.

This year we engaged more with stakeholders after the tabling of reports to follow through on our commitment to be a catalyst for continuous improvement in the public sector. As much as possible, I and my staff speak to the community about reports.

For example, I spoke at the Public Records Office Victoria's Record Management Network Meeting about the record-keeping related findings from the performance audit *Freedom of Information*, and to the

Local Government Professionals CEO Forum about the performance audit *Performance Reporting by Local Government*.

In the case of this latter audit, we have committed to work with the audited agency, the Department of Planning and Community Development, to assist it to address our recommendations as it develops a robust performance reporting framework for local government. We look forward to the work ahead on this and other such projects.

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*'Our 'no surprises' approach in communicating audit issues to agencies is now well established.'*

---

VAGO has come a long way in engaging with stakeholders. Our 'no surprises' approach in communicating audit issues to agencies is now well established. Our approach continues to evolve, and in-depth consultation with audited entities now starts earlier in the audit process. This begins with our rolling four-year annual plan, which gives audited agencies fair warning of our intended future focus. As much as possible, we aim to keep the plan stable to allow agencies time to prepare.

Like our audited agencies, we are also subject to scrutiny and in 2013 we will undergo our next triennial performance audit. Since the 2010 audit we have been preparing by improving our processes. The audit is an important accountability measure over the office and provides Parliament and the public with assurance of the efficiency and effectiveness of our activities and performance.

## My term as Auditor-General

As this will be my last annual report as Auditor-General of Victoria, I also want to reflect on my term in this role. Principally I want to thank the staff of VAGO who have supported me over the past six years. Without this support, the significant advances we have made in our strategic and annual planning approaches, engagement with our stakeholders and audit clients, and quality of our reporting would not have been possible.

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*'It has been my privilege to implement many initiatives suggested by staff.'*

---

It has been my privilege to implement many initiatives suggested by staff. Perhaps most notably was the suggestion to develop the Annual Plan into a four-year rolling plan. The Annual Plan has been aligned with the stated goals of the elected government to provide Parliament with greater assurance on the relevance, significance, risk and materiality of our planned audit coverage. It has been especially gratifying to receive positive feedback from Parliamentarians and others in relation to the approach and the quality of our reports.

Our approach to reporting to Parliament with more concise, focused and reader-friendly performance audit reports, and the adoption of a sector-based approach to reporting on our annual attest audits of entity annual financial reports has required significant effort.

Similarly, our reporting on the financial sustainability of the Public Hospitals, Local Government and Water sectors has further leveraged the significant investment in the adoption of accrual accounting.

I also acknowledge the support of fellow integrity officials and the good relationships with secretaries, chief executive officers, chairs of audit committees, chief financial officers, program managers and, importantly, audit liaison staff of audited entities for their cooperation and commitment to constructive relationships.

The contribution of audit service providers and subject matter specialist contractors has also been an important component in achieving the delivery of the audit program. I thank them for their valuable assistance.

I also recognise the support provided by the Public Accounts and Estimates Committees of the 55<sup>th</sup>, 56<sup>th</sup>, and 57<sup>th</sup> Parliaments.

It has been an honour to serve as Victoria's 25<sup>th</sup> Auditor-General and to complete a 42-year public service career, including the past 21 years as an Auditor-General. The time is now right for me to move on to the next phase of life and it has been a privilege to be able to contribute to improving the accountability and performance of the public sector.



Des Pearson  
Auditor-General

24 August 2012



P 10

We tabled 37 reports in Parliament (target 36).



P16

Surveyed Parliamentarians who responded reported 93 per cent satisfaction with our reports (target 85 per cent).



P 20

We responded to 99 per cent of inquiries within 28 days.

# Reports and advice

The Victorian Government's Budget process requires departments and agencies to report against outputs, including information on performance measures (quantity, quality, timeliness and cost).

VAGO's output group 1 relates to the Parliamentary reports and services we provide to Parliament, departments and agencies.

Introduction	10
Quantity	11
Performance audit reports .....	12
Reports on attest audit results .....	13
Report on the annual financial report of the state of Victoria .....	13
Annual plan.....	14
Annual report.....	14
Quality	14
Independent assessments of report quality .....	15
Feedback from Parliamentarians.....	16
Agency feedback on performance audits .....	18
Timeliness	19
Reports completed on time.....	19
Timeliness of responses to inquiries.....	20
Cost	20

## Introduction

Our purpose is to provide independent and objective assurance to Parliament on the accountability and performance of the state and local government sectors. We provide this assurance through our attest and performance audits, and report our results publicly.

In addition to our tabled products, we respond directly to inquiries from Members of Parliament and the public.

This chapter covers our performance in delivering reports and advice. Figure 2 summarises our performance against our targets for our Parliamentary reports and services.

[Figure 2] Performance against output group 1 targets

Performance measures	Unit of measure	Target 2012–13	Actual 2011–12	Target 2011–12	Actual 2010–11
<b>Quantity</b>					
Auditor-General's reports	(number)	36	37 <sup>(a)</sup>	36	39
<b>Quality</b>					
Average score of audit reports by external assessors	(per cent)	80	83	80	n/a
Overall level of external satisfaction with audit reports and services—Parliamentarians	(per cent)	85	93	85	98
Overall level of external satisfaction with audits—audit clients	(score) <sup>(b)</sup>	n/a <sup>(c)</sup>	71 <sup>(d)</sup>	75	67
<b>Timeliness</b>					
Reports completed on time	(per cent)	90	87 <sup>(e)</sup>	90	90
Inquiries from Members of Parliament and the public responded to within 28 days	(per cent)	95	99	95	99
<b>Cost</b>					
Total output cost	(\$mil)	14.9	13.7	14.1	14.7

(a) The higher than target result is due to carry forward of audits from previous financial years.

(b) The score is a rating out of 100, and represents the average rating across all respondents. The score is the average score transformed to a 100 point scale.

(c) This will not be reported in 2012–13. Two new performance indicators have been introduced which more directly reflect the quality of the audit report.

(d) The lower than target score is consistent with previous years' results.

(e) The lower than expected result is due in part to carry forward of audits from previous financial years.

## Quantity

In relation to reporting to Parliament, each year we produce:

- performance audit reports
- reports on the results of attest audits
- a report on our examination of the state's annual financial report
- an annual plan
- an annual report.

Figure 3 shows our performance for each category against our 2011–12 targets.

**[Figure 3] Performance against 2011–12 targets**

Product type	Target 2012–13	Actual 2011–12	Target 2011–12
Performance audit reports	28	29	28
Reports on results of attest audits	5	5	5
Report on the annual financial report of the state of Victoria	1	1	1
Annual plan	1	1	1
Annual report	1	1	1
<b>Total</b>	<b>36</b>	<b>37</b>	<b>36</b>

The reports we tabled in Parliament during 2011–12 are listed in Figure 4. Consistent with the approach used in our *Annual Plan 2011–12*, our audit reports are presented against each of the government's five goals for a stronger, fairer and safer Victoria.

**[Figure 4] Reports tabled in Parliament during 2011–12**

A growing economy
<b>Performance audit reports</b>
<i>Biotechnology in Victoria: the Public Sector's Investment</i>
<i>Business Planning for Major Capital Works and Recurrent Services in Local Government</i>
<i>Management of Road Bridges</i>
<i>Melbourne Markets Redevelopment</i>
<i>Supporting Changes in Farming Practices: Sustainable Irrigation</i>
Services that work
<b>Performance audit reports</b>
<i>Access to Public Housing</i>
<i>Casual Relief Teacher Arrangements</i>
<i>Compliance with Building Permits</i>
<i>Individualised Funding for Disability Services</i>
<i>Maternity Services: Capacity</i>
<i>Public Transport Performance</i>
<i>Science and Maths Participation Rates and Initiatives</i>



[Figure 4] Reports tabled in Parliament during 2011–12 – *continued*

<b>Strong families and vibrant communities</b>
<b>Performance audit reports</b>
<i>Developing Cycling as a Safe and Appealing Mode of Transport</i>
<i>Effectiveness of Justice Strategies in Preventing and Reducing Alcohol-Related Harm</i>
<b>Secure water and a healthy environment</b>
<b>Performance audit reports</b>
<i>Agricultural Food Safety</i>
<i>Managing Contaminated Sites</i>
<b>Government you can trust</b>
<b>Performance audit reports</b>
<i>Fraud Prevention Strategies in Local Government</i>
<i>Freedom of Information</i>
<i>Government Advertising and Communications</i>
<i>Management of Trust Funds in the Justice Portfolio</i>
<i>Obsolescence of Frontline ICT: Police and Schools</i>
<i>Payments to Visiting Medical Officers by Rural and Regional Hospitals</i>
<i>Performance Reporting by Local Government</i>
<i>Personal Expense Reimbursement, Travel Expenses and Corporate Credit Cards</i>
<i>Procurement Practices in the Health Sector</i>
<i>Road Safety Camera Program</i>
<i>State Trustees Limited: Management of represented persons</i>
<i>TAFE Governance</i>
<i>Victorian Institute of Teaching</i>
<b>Reports on attest audit results</b>
<i>Local Government: Results of the 2010–11 Audits</i>
<i>Portfolio Departments and Associated Entities: Results of the 2010–11 Audits</i>
<i>Public Hospitals: Results of the 2010–11 Audits</i>
<i>Tertiary Education and Other Entities: Results of the 2011 Audits</i>
<i>Water Entities: Results of the 2010–11 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, 2010–11</i>

## Performance audit reports

A performance audit report examines a program or area of government, to determine whether government objectives have been achieved.

We use a topic selection framework to select performance audit topics. This is discussed further on page 42 and in VAGO's *Annual Plan 2012–13*.

We tabled 29 performance audit reports in 2011–12. These included:

- 24 of the 29 performance audits planned for 2011–12
- one audit carried forward from 2010–11—*State Trustees Limited: Management of represented persons*
- one audit carried forward from 2009–10—*Biotechnology in Victoria: the Public Sector's Investment*

- one newly commissioned audit—*Performance Reporting by Local Government*
- two audits tabled early from the *Annual Plan 2012–13—Science and Maths Participation Rates and Initiatives*, and *Obsolescence of Frontline ICT*.

The five audits listed in the 2011–12 annual plan that were not tabled in 2011–12 were:

- *Municipal Solid Waste Management*, which was tabled early, in June 2011
- *Investment Attraction*, which will table in the first quarter of 2012–13
- *Collections Management in Cultural Agencies*, which will table in the second quarter of 2012–13 and which was deferred to allow for the addition of *Performance Reporting by Local Government* to examine a priority issue
- *Learning Technologies in Government Schools*, which will table in the third quarter of 2012–13 and which was deferred to allow VAGO to collaborate on the Victorian Ombudsman’s own motion investigation into ICT-enabled projects
- *Addressing the Ageing of the Teacher Workforce*, which was deferred in anticipation of a report by the Productivity Commission.

## Reports on attest audit results

Our attest audit reports inform Parliament about the results of our audits of financial statements including matters of significance identified during the audits.

We report by sector, discussing financial results, financial sustainability of entities, reflections on the quality of agency reporting, and our assessment of the adequacy of internal controls. Each sector report includes focus areas that look at particular issues in more detail and provide a high-level review of the sector’s performance in the area.

Five sector-based reports were tabled during the year as planned.

## Report on the annual financial report of the state of Victoria

Under section 9A of the *Audit Act 1994*, the Auditor-General is required to express an audit opinion on the financial report of the state. Under section 16A the Auditor-General is also required to make a report to Parliament on this financial report. The report provides information on the audit result, the state’s financial results, and significant projects and developments.

In the latter section we comment on projects and developments where Parliament or the public would have a reasonable expectation of timely, independent disclosure of the related financial implications, which are not otherwise required to be reported by accounting standards.

The *Auditor-General’s Report on the Annual Financial Report of the State of Victoria, 2010–11*, was tabled on 9 November 2011.



### Attest audit reports

Our reports on the results of attest audits cover the following sectors or entities:

- Local government
- Portfolio departments and associated entities
- Public hospitals
- Tertiary education and other entities
- Water entities



All of VAGO’s reports, annual plans and annual reports are published on our website: [www.audit.vic.gov.au](http://www.audit.vic.gov.au).



### Annual Plan 2012–13

While this annual report acquits against our *Annual Plan 2011–12*, we have already prepared our annual plan for 2012–13. It was tabled in Parliament on 23 May 2012 and is available at [www.audit.vic.gov.au](http://www.audit.vic.gov.au).

## Annual plan

The *Audit Act 1994* requires the Auditor-General to develop an annual plan that sets out the work program for the year and present it to Parliament, following consultation with the Public Accounts and Estimates Committee (PAEC).

This is one of our most important accountability mechanisms. It provides Parliament, the public sector and the community with the opportunity to assess our goals, understand our audit priorities and scrutinise our program. Victoria was one of the first jurisdictions to have such a plan.

In developing our annual plan, in addition to consulting with PAEC, we consult departments (including their audit committees), stakeholders such

as peak bodies, industry bodies and subject matter experts. We conduct environmental scanning and choose areas of focus and audit topics by assessing the risk and materiality of an aspect of government in terms of financial significance and community impact.

For six years, our annual plan has provided our work plan on a four-year rolling basis. This exceeds the legislative requirement for a one-year plan.

The *Annual Plan 2011–12* was tabled on 24 May 2011.

## Annual report

The annual report is another of our outputs. The *Annual Report 2010–11* was tabled in Parliament on 30 August 2011.

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## Quality

The quality of our reports is assessed in a number of ways. In 2011–12, three measures were used to report externally on the quality of our reports:

- independent assessments of report quality
- feedback from Parliamentarians
- agency feedback on performance audits.

In 2011–12, we introduced a new quality measure for our reports, ‘average score of audit reports by external assessors’. This followed the introduction in 2010–11 of the quality performance measure ‘overall level of external satisfaction with audit reports and services—Parliamentarians’.

These two measures were introduced to replace the measure ‘overall level of external satisfaction with audits—audit clients’.

As an independent officer of Parliament, the Auditor-General is statutorily required to provide Parliament with opinions and reports according to law and ‘without fear, favour or affection’. These new measures are a more appropriate measure of our report quality and services to Parliament, based on the satisfaction of external parties.

From 2012–13 we will no longer report on audited agencies’ overall level of satisfaction, but will continue to collect and use this information for our internal business process improvement. However, consideration of this dimension has to be secondary to our primary role and obligation as Parliament’s independent auditor, operating ‘without fear, favour or affection’.

## Independent assessments of report quality

Each year, approximately one in three of our performance audit reports are reviewed by independent assessors, who examine their quality. The reviewers read the report alone, and as such provide an indication of quality based solely on the report itself.

The Australasian Council of Auditors-General (ACAG) has a panel of three independent assessors to conduct these reviews across participating jurisdictions. The current assessors are an ex-Parliamentarian and Chair of a Public Accounts Committee, a former Auditor-General, and a member of the Board of the Australasian Reporting Awards, recently retired from a senior public service position.

In 2011–12, the following 10 performance audit reports were assessed:

- *Biotechnology in Victoria: the Public Sector's Investment*
- *Compliance with Building Permits*
- *Developing Cycling as a Safe and Appealing Mode of Transport*
- *Freedom of Information*

- *Government Advertising and Communications*
- *Management of Road Bridges*
- *Maternity Services: Capacity*
- *Road Safety Camera Program*
- *Supporting Changes in Farming Practices: Sustainable Irrigation*
- *TAFE Governance.*

The reports are assessed against criteria that have been agreed across the Australian audit offices that participate. In 2011–12, we exceeded our target with an average score of 83 per cent (target 80 per cent).

In 2011–12, we conducted a pilot of assessments of our attest audit reports. The following three attest audit reports were selected for assessment:

- *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2010–11*
- *Water Entities: Results of the 2010–11 Audits*
- *Local Government: Results of the 2010–11 Audits.*

The attest audit reports had an average score of 81 per cent. As this was a pilot, the results were not included in the VAGO performance score for the year.

Figure 5 shows the overall average ACAG score for VAGO's performance and attest audit reports.



### Average score of audit reports by external assessors

The score for quality is based on reviews of performance audits only. External assessment of attest audit reports was conducted in 2011–12 for the first time as a pilot only.

[Figure 5] Average ACAG score for VAGO audit reports

ACAG assessments	Score (per cent)				
	2011–12	2010–11	2009–10	2008–09	2007–08
Performance audit reports	83	80	81	79	76
Attest audit reports	81	n/a	n/a	n/a	n/a

Note: No scores are provided for attest audit reports prior to 2011–12 as they were not assessed.

Figure 6 shows the average scores against each criterion for performance audit reports and for attest audit reports.

**[Figure 6] Average scores for performance audit reports out of a possible score of five, against each criterion**

ACAG criterion	Score out of five (average)	
	2011–12	2010–11
<b>Performance audit reports</b>		
Scope and potential for significant impact	4.3	4.3
Focus on effectiveness, efficiency and economy	4.0	3.7
Persuasiveness of conclusions	4.5	4.2
Communication (online report)	3.9	3.7
Communication (printed report)	3.9	4.0
Usefulness to the customer	4.0	4.2
<b>Attest audit reports</b>		
Scope and potential for significant impact	3.8	n/a
Focus on key issues	3.9	n/a
Persuasiveness of conclusions	4.4	n/a
Communication (online report)	4.1	n/a
Communication (printed report)	4.1	n/a
Usefulness to the customer	4.1	n/a

Note: No scores are provided for attest audit reports prior to 2011–12 as they were not assessed.

In addition to scoring each report submitted, the assessors provided qualitative feedback on the reports. The following quotes are extracts from this feedback.

**Road Safety Camera Program**

‘The conclusions are well argued and very concise. The report is balanced and provides the community with direct answers to its questions about speed cameras.’

**TAFE Governance**

‘Suggested improvements include greater use of interstate and international findings and more use of charts, diagrams, graphs and photographs.’

**Auditor-General’s Report on the Annual Financial Report of the State of Victoria, 2010–11**

‘The in-depth analysis of a number of major projects is to be commended. Without this audit these matters would not have been fully understood by MPs and others.’

**Feedback from 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. This feedback is collected on VAGO’s behalf by an accredited research company, to better assure the validity of the results.

Feedback from Parliamentarians in 2011–12 has been encouraging. Ninety-three per cent of respondents indicated that they were satisfied or very satisfied overall with our reports and services. This is above the target of 85 per cent.

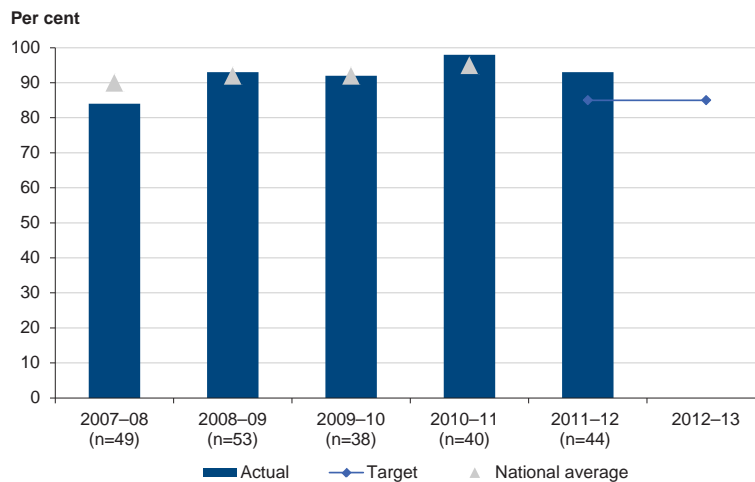


These results must, however, be interpreted with caution, because the response rate was relatively low. Forty-four Members of Parliament responded – similar to last year when 45 responded. This represents 35 per cent of all members of Parliament.

**Highlights from Parliamentary feedback**

- 84 per cent of Parliamentarians who responded agreed that the Auditor-General’s performance audit reports addressed their key areas of interest to a high or very high extent.
- 87 per cent agreed that performance audit reports clearly identified public sector agencies’ performance.
- 96 per cent agreed that performance audit reports clearly identified the significant issues and their implications.
- 88 per cent agreed that attest audit reports clearly identified the significant issues and their implications.
- 79 per cent agreed that attest audit reports assisted them to monitor the accountability and financial performance of the Victorian public sector.

**[Figure 7] Parliamentarians’ satisfaction levels with the Auditor-General’s reports and services**



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

Our 2011–12 results were benchmarked against results from three other Australian audit offices. VAGO ranked at the high end of the range for reports providing valuable information about public sector performance, for high quality reports and services, and for performance audits addressing Parliamentarians’ key areas of interest.

One area where we received a low rating was on the percentage of Parliamentarians who had referred to one of our reports. This may have been affected by the number of new members in the new Parliament.



**Survey response rate**

The response rate from Parliamentarians is low, and this is consistent with experience in other jurisdictions. The average response rate across participating audit agencies over 10 years is 40 per cent. We continue to look for ways to increase the response rate.

### Agency feedback on performance audits

After every performance audit, we request feedback from audited agencies on the:

- audit process
- audit reporting
- value of the audit to the agency.

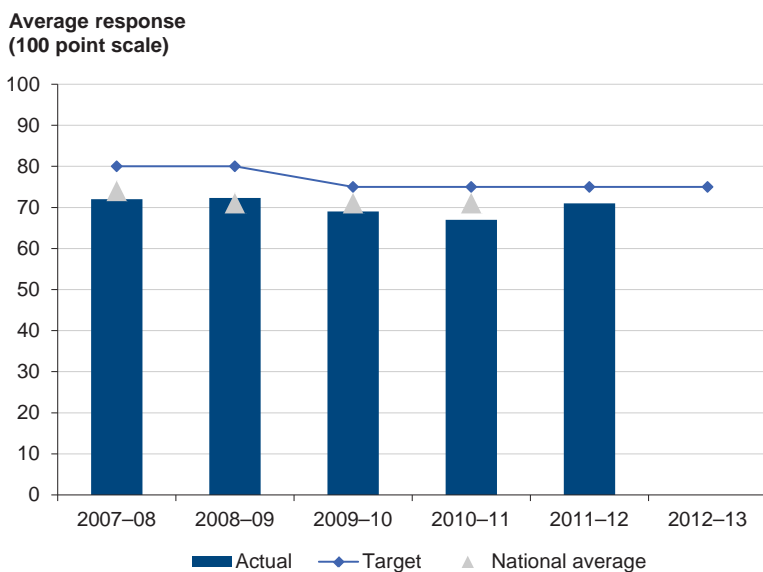
Feedback from audited agencies needs to be considered carefully, as it is not necessarily objective. It is primarily a measure of audited agencies' satisfaction with the process, rather than an overall quality measure for an audit. As such, this measure will not be externally reported in future years, but we will continue to use it to identify areas for internal improvement.

As with the surveys of Parliamentarians, to better assure the validity of the results, an accredited research company is commissioned to conduct the survey of audited agencies and analyse the results.

An overall index is generated based on average ratings across all three areas and expressed as a score out of 100. In 2011–12, the overall satisfaction index was 71, exceeding results in 2009–10 (69) and 2010–11 (67). Results for all questions except one showed an improvement in satisfaction, indicating that the actions that have been put in place to address prior years' survey results have had an impact.

The result was nonetheless below the target of 75. This may be due to the survey being more a measure of agency satisfaction with the process, as discussed above, rather than a robust quality measure.

[Figure 8] Audited agencies' satisfaction with performance audits



#### New performance measures for quality

We have introduced two new quality performance measures, to more objectively measure the quality of our audit reports. We will continue to assess agency satisfaction with our audits for our internal business improvement. However, it will no longer be used as an external measure and has to be regarded as a secondary consideration in our primary role of providing independent audit opinions and reports.

## Timeliness

To measure the timeliness of our reports and services, we report two measures:

- reports completed on time
- timeliness of responses to inquiries.

### Reports completed on time

Each performance audit and sector-based attest audit report 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, despite the inherent challenge of reliably predicting how complex and difficult an audit might be.

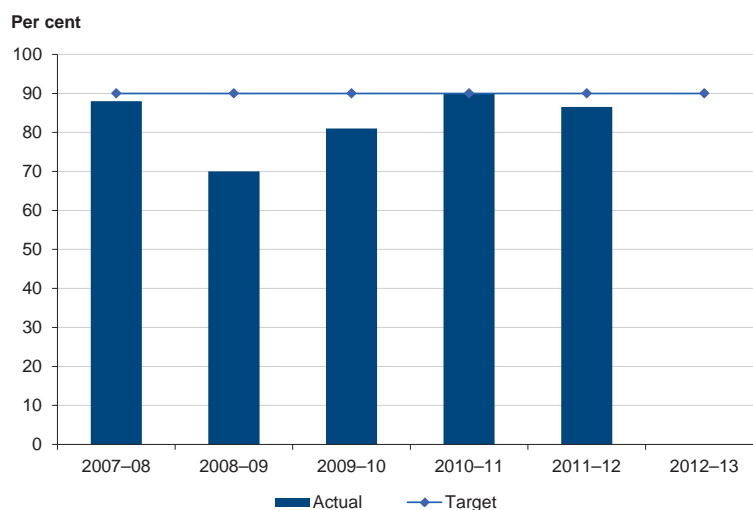
Of the 37 Parliamentary reports tabled during 2011–12, 32 (87 per cent) were tabled within one month of the planned program. Of the five reports that were late, two were carried over from previous financial years.

The performance reports that did not meet the target times in 2011–12 were:

- *TAFE Governance (2011–12:9) and Melbourne Markets Redevelopment (2011–12:23)*—for both audits, additional audit work was required including the need to pursue further lines of inquiry.

The average time to complete performance audits in 2011–12 was 10 months, which is similar to last year and which compares well with the 2010–11 (latest available data) ACAG averages for Australian audit offices, which range from 6 to 12 months.

[Figure 9] Timeliness of reports tabled in Parliament



- *Biotechnology in Victoria: the Public Sector's Investment (2011–12:1), State Trustees Limited: Management of represented persons (2011–12:19), and Casual Relief Teacher Arrangements (2011–12:26)*—for these audits, there was a change of audit team mid-audit.



### How to engage with VAGO

We value our engagement with the public and the best way to contact us is in writing. You can write to us at Level 24, 35 Collins St, Melbourne, 3000. Alternatively, email us at [comments@audit.vic.gov.au](mailto:comments@audit.vic.gov.au).

## Timeliness of responses to inquiries

Each year, many Parliamentarians and members of the public contact us about issues that concern them. In many cases, these inquiries seek to trigger or contribute to audit activity under VAGO's mandate. While we treat these inquiries as requests for audit attention, we do not necessarily investigate specific cases as our audits focus on systemic issues. Inquiries can, however, help refine the focus of our audits and are taken into consideration when developing our Annual Plan.

The timeliness of our response to unsolicited inquiries measures our responsiveness in one of our most significant direct interactions with Members of Parliament and the general public.

In 2011–12, we responded to 99 per cent of inquiries within 28 days. This was in line with last year's result (99 per cent) and exceeded the target of 95 per cent.

Unsolicited inquiry correspondence increased by 45 per cent and amounted to 139 letters, emails or phone calls:

- six from Members of Parliament
- 106 from the general public and community groups
- 18 from business and industry
- five from other entities/individuals
- four anonymous.

Recurring topics for this year included the residential building industry, road safety cameras, freedom of information processes and the smart meter rollout in Victoria.

## Cost

In 2011–12 the cost of delivering our Parliamentary reports and services was \$13.7 million, which was below the target of \$14.1 million. This underspend was largely due to lower expenditure on contractors and employee-related expenses.

The cost of our performance audit reports ranged from \$190 000 to \$1 025 000. The average cost per performance audit report was \$429 827 which is higher than last year's average of \$354 000 and slightly above our internal benchmark target of \$415 000. The higher than expected cost was due to one audit which was highly complex and of long duration, and consequently high cost. This audit was carried forward from a previous year.

The cost of our attest audit reports ranged from \$155 000 to \$205 000. The average cost per attest audit report was \$185 000 compared to \$207 000 last year. The cost is lower because in 2010–11 we produced an additional report of interim results prior to the proroguing of Parliament for the November 2010 election, as the first opportunity to table reports on the final results of audits was otherwise not until February 2011. This report was an omnibus, summarising the interim results of five sectors, and was more expensive to produce.



**P24–25**

We issued 563 opinions on attest statements, and 115 opinions on performance statements.



**P26**

The overall audited agency satisfaction index was 78 (target 75).



**P27**

99 per cent of audit opinions were issued within statutory deadlines (target 98 per cent).

# Audit opinions

The Victorian Government’s Budget process requires departments and agencies to report against outputs, including information on performance measures (quantity, quality, timeliness and cost).

VAGO’s output group 2 relates to our opinions on the annual financial statements and non-financial performance statements prepared by departments and agencies.

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## Introduction

Our primary purpose is to provide assurance to Parliament on the accountability and performance of the Victorian state and local government sectors. The foundation for doing this is our annual attest audits of financial and non-financial performance statements. Our opinions assure Parliament that these statements are presented fairly.

Our attest audit coverage also considers whether there has been wastage of public resources, or any lack of probity or financial prudence in the management or application of public resources.

This chapter covers our performance in delivering these audit opinions. Figure 10 shows how we performed against our targets for audit opinions on financial and non-financial performance statements.

[Figure 10] Performance against output group 2 targets

Performance measures		Target 2012–13	Actual 2011–12	Target 2011–12	Actual 2010–11
<b>Quantity</b>					
Audit opinions issued on the financial statements of agencies	(number)	563	563 <sup>(a)</sup>	567	551
Audit opinions issued on non-financial performance indicators	(number)	114	115 <sup>(b)</sup>	113	113
<b>Quality</b>					
External/peer reviews finding no material departures from professional and regulatory standards <sup>(c)</sup>	(per cent)	100	100	100	n/a
Overall level of external satisfaction with audits – audit clients <sup>(d)</sup>	(score)	n/a	78	75	77
<b>Timeliness</b>					
Audit opinions issued within statutory deadlines	(per cent)	98	99	98	99
Management letters issued to agencies within established time frames <sup>(e)</sup>	(per cent)	90	96	90	88
<b>Total output cost</b>	<b>(\$mil)</b>	<b>22.7</b>	<b>22.8<sup>(f)</sup></b>	<b>20.8</b>	<b>21.2</b>

(a) This measure is below target because some entities ceased operation before the audit.

(b) The higher than expected outcome reflects additional entities producing non-financial performance statements for audit when not required by legislation.

(c) This is a new measure that more directly reflects the quality of audits. It was not measured before 2011–12.

(d) This will not be reported in 2012–13 as it does not provide an objective assessment of audit quality. A new performance measure has been introduced that more directly reflects the quality of audit work.

(e) In the 2011–12 Budget Papers, this performance measure was named 'Management letters and reports to Ministers issued within established time frames'. It measures the same activity as before but the name has been amended in the 2012–13 Budget Papers and this report to increase clarity.

(f) The cost is higher than the target due to an increase in actual billable hours, which better reflects the resources required to deliver the output. Costs are fully recovered through audit fees.

## Quantity

The assurance audit outputs we produce each year are:

- audit opinions on the financial statements of entities
- an audit opinion on the annual financial report of the State of Victoria
- a review opinion on the estimated financial statements of the state
- audit opinions on entities' non-financial performance statements (for those entities that produce such statements)
- authorisation of warrants for expenditure of public funds.

Figure 11 lists the number of entities, by type, that the Auditor-General is responsible for auditing.

**[Figure 11] Auditor-General's attest audit responsibilities**

Type of entity	2011–12	2010–11
<b>Parliamentary bodies</b>		
Parliament	1	1
<b>State accounts</b>		
Annual financial report	1	1
Estimated financial statement <sup>(a)</sup>	1	1
<b>State entities</b>		
Departments and other independent budget sector entities	23	23
Companies, trusts and joint ventures <sup>(b)</sup>	178	161
Public bodies	94	94
Public cemeteries <sup>(c)</sup>	6	15
Public hospitals and ambulance service	88	85
Regional waste management groups	13	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	14	13
<b>Total number of entities</b>	<b>561</b>	<b>551</b>

(a) The estimated financial statement receives a review opinion, not an audit opinion.

(b) This increase is primarily due to the inclusion of new entities that reverted to the State Electricity Commission of Victoria under agreements during the year.

(c) The decrease is due to the consolidation of a number of public cemeteries.



### More opinions than entities?

We had responsibility for auditing 561 entities' financial statements in 2011–12. However, this year we issued 563 opinions because we issued two opinions for two of those entities.

## Audit opinions issued on entities' financial statements

During 2011–12, VAGO issued 563 opinions on entities' financial statements, compared with the target of 567. This included the audit opinion on the annual financial report of the state, and the opinion on the review of the estimated financial statements.

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

A 'qualified' audit opinion is issued when a material misstatement exists within the financial statements, while not being pervasive to the financial report.

The financial statements of four entities (five in 2010–11), which represent less than 1 per cent of all audited entities, were qualified in 2011–12 for the following reasons:

- the accounting treatment of non-reciprocal grants was not in accordance with Australian Accounting Standards
- there was inherent risk associated with complete recording of cash collected through donations
- there was a lack of disclosure as to the going concern of the entity.

Sometimes it is necessary to issue a 'disclaimed' opinion when we are unable to obtain sufficient appropriate audit evidence on which to base our opinion, and we conclude that the possible effects

on the financial report of undetected misstatements, if any, could be both material and pervasive.

In 2010–11, the State Electricity Commission of Victoria received entities as settlement of a 17-year debenture created as part of the state's privatisation of electricity assets. However, there was insufficient evidence to support the transactions and balances of those entities, and therefore we issued disclaimed opinions on the financial statements of 14 entities.

## Audit opinion on the annual financial report of the State of Victoria

The state's accountability framework requires the government to prepare and present consolidated whole-of-government financial statements to Parliament annually. The statements consolidate all the public sector entities the government controls.

On 10 October 2011 the Auditor-General provided a clear audit opinion on the state's annual financial report for 2010–11, which the Department of Treasury and Finance tabled in Parliament on 13 October 2011.

## Review of the estimated financial statements of the State of Victoria

The Budget process is another aspect of state-level finances that the Auditor-General examines. Under *the Audit Act 1994*, the Auditor-General is required to report to Parliament on whether the:

- estimated financial statements (EFS) have been prepared in accordance with accounting policies

- EFS are consistent with the target specified in the current financial policy objectives and strategies statement
- EFS have been properly prepared on the basis of assumptions
- methodologies used to determine those assumptions are reasonable.

On 27 April 2012 we completed our review of EFS for the financial year ending 30 June 2013 and the following three years. The Budget Papers, presented to Parliament on 1 May 2012, included our independent report.

### Audit opinions issued on entities' non-financial performance statements

As well as preparing financial statements some entities are required to prepare non-financial performance statements that must also be audited.

These statements report against the performance measures and targets identified in:

- an agency's budget for the local government sector
- Ministerial Directions for the water and tertiary education sectors.

VAGO issues an opinion on whether a non-financial performance statement is presented fairly.

In 2011–12, we issued 115 opinions on non-financial performance statements, two more than planned, comprising:

- 79 on council statements
- 16 on regional and rural water authority statements
- 14 on technical and further education institutes
- six on training entities.

The additional opinions issued in 2011–12 were for water and training entities that, although not required to produce non-financial performance statements for audit, commendably chose to do so.

Two entities (one in 2010–11) received qualified audit opinions on their performance statements in 2011–12. One was for a failure to include key performance indicators and targets, and the other for failing to report against them.

There are currently no legislative requirements for annual assurance audits of performance information reported by government departments.

### Warrants for expenditure of public funds

As well as our audit opinions, we are responsible for certifying 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, certifying each warrant when satisfied that the funds are legally available.

While not included in the output group, information on these warrants is included below for transparency.

During 2011–12, the Auditor-General certified 33 warrants, authorising Consolidated Fund expenditure of up to \$48.8 billion (36 warrants of up to \$41.9 billion in 2010–11).

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## Quality

Our current performance measures for the quality of our attest audit services and reports are:

- external/peer reviews finding no material departures from professional and regulatory standards
- agency feedback on attest audit services and reports.

As an independent officer of Parliament, the Auditor-General is statutorily required to provide Parliament with opinions and reports according to law and without fear, favour or affection. As such, in 2011–12, we introduced a new performance measure to measure the quality of our attest audit activities: 'external/peer reviews finding no material departures from professional and regulatory standards'. This measure replaces the measure of: 'overall level of external satisfaction with audits – audit clients', as it is a more appropriate measure of quality for the independent auditor. From 2012–13, we will no longer report on the 'overall level of external satisfaction with audits – audit clients'. We will, however, continue to assess satisfaction of audited agencies for our internal business improvement. However, this must remain a secondary consideration to our overriding obligation to form independent opinions and to report 'without fear, favour or affection'.

### External/peer reviews finding no material departures from professional and regulatory standards

The target for this new measure is 100 per cent for 2011–12.

In 2011–12, the external/peer reviews were conducted as part of a whole-of-office review which was carried out in May 2012. While the final peer review report has not been received, the provisional reports on the attest audits reviewed indicated that there were no material departures and that the target will be met.

### Agency feedback on attest audit services and reports

Each year we seek the views of agencies on the:

- audit process
- audit reporting
- value of the audit to the agency.

As with our agency surveys relating to performance audits, feedback from audited agencies needs to be interpreted with caution.

Feedback is collected through surveys and interviews that are conducted by an accredited research company. An overall index is generated based on average ratings across all three areas, and expressed as a score out of 100. The overall satisfaction index for audited agencies in 2011–12 was 78, which exceeded both the 2011–12 target of 75 and the 2010–11 result of 77. This reflects our recent efforts to:

- communicate with audited agencies about the basis for audit fees
- focus on staff development.



This year the majority of ratings for audit process and audit value showed an improvement compared to last year's results, while results for audit reporting were stable.

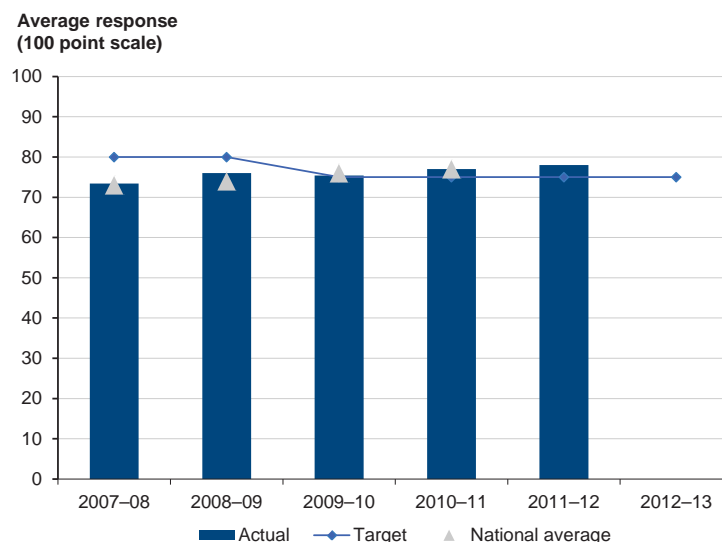
Our 2011–12 results were benchmarked against results from the three other participating Australian audit offices. In 2011 VAGO ranked at the high end of the range on audit process and audit reporting, and in the middle of the range on audit value compared to our peers.

VAGO ranked particularly well in audited agencies' perception of:

- the professional skills and knowledge of the auditors
- auditors' understanding of the agencies
- timeliness of the audit.

We ranked lowest in terms of whether we had adequately explained the basis for audit fees. However, our score was an improvement on recent years.

[Figure 12] Audited agencies' overall satisfaction with attest audits



## Timeliness

There are two timeliness measures for our attest audits:

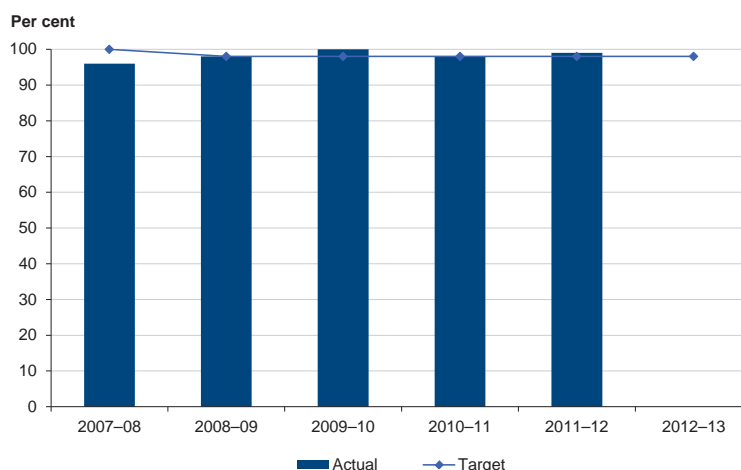
- audit opinions issued within statutory deadlines
- management letters issued within established time frames.

### Audit opinions issued within statutory deadlines

The *Financial Management Act 1994* requires departments and other public sector entities to submit their annual financial statements to the Auditor-General within eight weeks of the financial year end. According to the *Audit Act 1994*, the Auditor-General must then express an opinion on the financial statements within four weeks of their receipt.

During 2011–12 we issued 99 per cent (99 per cent in 2010–11) of our audit opinions within the statutory deadline, exceeding our target of 98 per cent, as shown in Figure 13. This continues our trend of high performance against this target.

[Figure 13] Audit opinions issued within the statutory deadline



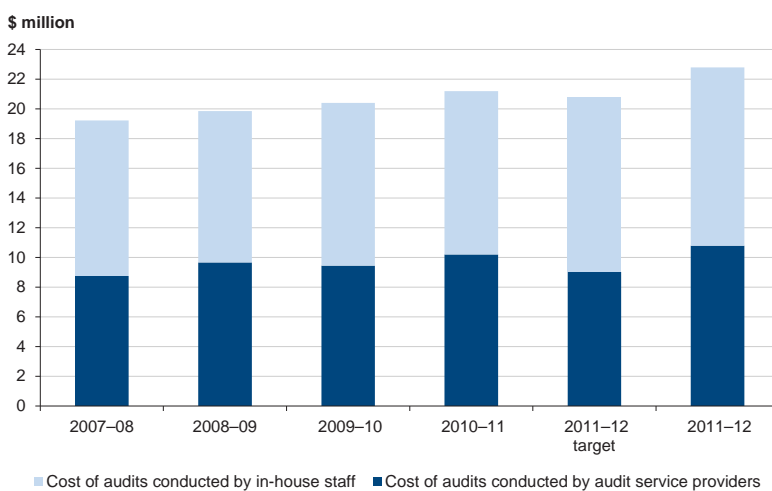
### Management letters issued within established time frames

VAGO communicates significant audit or accounting issues in management letters during, and at the completion of, an audit.

In 2011–12, we issued 96 per cent of management letters within our established time frames. This is a strong improvement on last year (88 per cent) and higher than our target of 90 per cent. This reflects our focus on improving this result.

## Cost

[Figure 14] Cost of audit opinions on financial statements



The total cost of delivering our audit opinions increased from \$21.2 million last year to \$22.8 million this year. This is 9.6 per cent above target (\$20.8 million). The higher than expected cost is mainly due to general price increases, higher staff and contractor costs and bringing forward work. Costs were fully recovered through audit fees.

At \$40 497, the average cost per audit increased slightly in 2011–12 compared with 2010–11, in line with CPI. The cost of our audits ranged from \$580 to \$426 000.

[Figure 15] Trends in average cost of audit opinions

		Target 2012–13	Actual 2011–12	Actual 2010–11	Actual 2009–10	Actual 2008–09	Actual 2007–08
Attest audit opinions	(number)	563	563	551	557	592	640
Cost	(\$mil)	22.7	22.8	21.2	20.4	19.8	19.2
Average cost per audit opinion <sup>(a)</sup>	(\$'000)	40	40	39	37	33	30

(a) The average cost calculation does not separate the cost of non-attest audit opinions, where relevant.



P30

References to VAGO reports in Parliamentary debate up 52 per cent.



P32

99 per cent of performance audit recommendations made in 2011–12 were accepted.



P35

Inquiries from the public seeking to stimulate audit activity were up 45 per cent.

# Impact of reports and services

In this chapter we discuss the impact of VAGO's reports and services and how we measure this impact.

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## Introduction

We undertake a range of activities to increase the impact of our reports and services, and measure the degree of this impact.

Developing quantified outcomes-based performance measures for VAGO that meaningfully reflect the office's activities is challenging. We cannot direct agencies to respond to our findings, or accept and implement our recommendations, as legislation gives the Auditor-General no executive authority. Our only recourse is to expose issues by reporting them to Parliament,

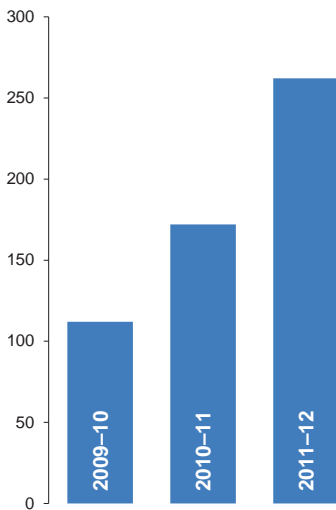
thereby placing them in the public domain.

Despite this, VAGO has identified a suite of measures, both quantitative and qualitative, to provide as complete a picture as possible of the impact of the office on the public sector and the results achieved in the community through our products and services.

In this chapter we look at our impact on:

- Parliament
- audited agencies
- public debate.

[Figure 16]  
References to VAGO reports in Parliamentary debate



## Impact on Parliament

Our primary stakeholders are Members of Parliament, and a key measure of the impact of our work is Parliamentarians' use of, and response to, our reports.

We use the following measures to examine the extent to which Parliamentarians engage with and use our reports:

- Parliamentary debate
- Parliamentary inquiries
- Parliamentary briefings and engagement
- feedback from Parliamentarians.

Members used our reports to support their discussion of:

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

### Parliamentary debate

Parliamentarians increasingly refer to our reports to support their debates in Parliament. This trend has continued over the past few years. Hansard transcripts show a significant increase in references to our audit reports in Parliamentary debate in 2011-12, reflecting members' continuing high level of interest in and use of our work. This year members made 262 references to our audit reports—an increase of 52 per cent compared to last year's 172 references.

### Excerpts from debate

#### **TAFE Governance (October 2011)**

'The Auditor-General made five recommendations regarding this matter, and the minister has indicated that they will be implemented.'

(Inga Peulich, MLC, Liberal)

#### **Procurement Practices in the Health Sector (October 2011)**

'If the minister is interested in making productivity gains across the board... he should act on the Auditor-General's recommendations.'

(Colleen Hartland, MLC, Greens)

In the 17 weeks that Parliament sat, there was an average of 15.4 references to our audits per week. This is an increase of 25 per cent on last year's average of 12.3 for the 14 sitting weeks of 2010-11.

## Parliamentary inquiries

Our audit reports are also used to inform and support the activities of Parliamentary committees. From time to time, a report may be used intensively to drive particular inquiries by these committees.

In 2011–12, the Public Accounts and Estimates Committee (PAEC) conducted a review into the state's financial and performance outcomes for 2009–10 and 2010–11. PAEC's final report drew substantially on the *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2010–11* (November 2011), to support its own findings and recommendations. PAEC's report also referred to VAGO's annual plans and the performance audits *Access to Ambulance Services* (October 2010) and *Melbourne Markets Redevelopment* (March 2012).

The Legislative Council's Economy and Infrastructure References Committee also used VAGO's work to support its activities. In its report on its *Inquiry into Primary Health and Aged Care*, finalised in 2011–12, the committee referred to the performance audit *Performance Reporting by Departments*. This report has had significant ongoing impact on the public sector since its tabling in May 2010.

VAGO was also invited to provide evidence based on our audit findings to the following inquiries by Parliamentary committees:

- the Road Safety Committee's Inquiry into Motorcycle Safety
- PAEC's Inquiry into Effective Decision Making for the Successful Delivery of Significant Infrastructure Projects.

These inquiries are ongoing and reports have yet to be tabled.

## Parliamentary briefings and engagement

In 2011–12 we continued our program of briefings and engagement activities with Parliamentarians and provided assistance in identifying audit findings relevant to them.

We conducted 17 briefing sessions in Parliament House during tabling weeks, detailing the key findings of VAGO reports tabled earlier that day. These sessions were open to any Member of Parliament to attend. Similar to last year, 31 members came to one or more sessions (30 in 2010–11) while average attendance rose slightly to nine a session (seven in 2010–11).

In its *Report on the 2009–10 and 2010–11 Financial and Performance Outcomes* (April 2012), PAEC recommended that VAGO obtain feedback on how briefing sessions could be made more appealing or convenient to Members of Parliament in order to increase the attendance rate in the future. We will consider this recommendation in 2012–13.

Ministers have a particular interest in VAGO reports with findings that are relevant to their portfolios. As part of our audit process, we offer ministers a briefing about the audit on the eve of tabling day. Across 2011–12, 18 ministers or their offices accepted briefings compared to 31 in 2010–11. Some received briefings on more than one audit, with 36 briefings conducted in total.

While this is a decrease compared to last year, Parliamentarians are using our reports more and more, as discussed previously. This suggests that our activities in previous years—especially in the first year of the 57<sup>th</sup> Parliament—have been effective, and that Parliamentarians are accessing our reports independently.



'The one thing that impresses me is the utter disregard by VAGO to curry political favour or pander to politicians who are currently in office, no matter what their political ideology. VAGO's Parliamentary reports are generally of an excellent standard and are arguably the truest financial and performance accounts of the state of play in the Victorian public sector.'

(Nazih Elasmr,  
MLC, ALP)



For more information on our surveys of Parliamentarians, see page 16.

## Feedback from Parliamentarians

We request feedback from Parliamentarians annually through a confidential survey. This feedback is important to inform our efforts to improve our services and publicly report on our performance. It is also how we collect information to report on one of our performance measures—Parliamentarians' satisfaction with audit reports and services.

Feedback from Parliamentarians in 2011–12 has been encouraging. While our results have dropped, they are still strongly positive, with 93 per cent of Parliamentarians who responded agreeing that they were satisfied or very satisfied with our reports and services, compared to 98 per cent of respondents in 2010–11. This result is also consistent with trends in the course of each Parliament and remains above our target of 85 per cent.

---

## Impact on audited agencies

It is in the agencies that are the subject of our audits where our findings and recommendations can have clear impact.

We used the following measures to assess the impact of our work on these agencies:

- agency implementation of recommendations
- changes to agency practices
- value of audits to audited agencies.

### Agency implementation of recommendations

When VAGO identifies significant deficiencies or issues during an audit we make recommendations to the audited agencies.

For an audit report to have real impact the audit recommendations must first be accepted by the agency. Without their acceptance, opportunities to increase accountability and improve public sector performance are limited. VAGO engages extensively with agencies on the proposed recommendations and seeks to make the recommendations action-oriented, practical and meaningful.

The *Audit Act 1994* gives audited agencies the opportunity to respond to our findings and recommendations, and for their response to be included in the tabled report.

Across our performance audit reports in 2011–12, VAGO made 182 recommendations based on our findings. Of these, 180 (99 per cent) were accepted.

Extracts from agency responses provide examples of the usefulness of recommendations and the commitment of agencies to implement the necessary changes identified by our audits.

#### Extracts from responses to VAGO reports

##### ***Developing Cycling as a Safe and Appealing Mode of Transport (August 2011)***

'The report's recommendations provide positive and constructive guidance for the Department and VicRoads to continue to develop cycling as a safe and appealing mode of transport for Victorians, and to this end we accept all six of your recommendations.'

*Response provided by the Secretary, Department of Transport, and the Chief Executive, VicRoads*

**Procurement Practices in the Health Sector (October 2011)**

'The report and its recommendations will be used to guide our thinking as we develop a new five year (2012–17) strategic plan.'  
*Response provided by the Board Chair, Health Purchasing Victoria*

**Performance Reporting by Local Government (April 2012)**

'The timing of the performance audit report will assist in the preparation of the 2013–17 Council Plan which will be developed after this year's Local Government elections. The report will provide a valuable resource to assist in the process.'

*Response provided by the Chief Executive Officer, Colac Otway Shire*

However, real, sustainable change takes time. Although analysing responses to recommendations tabled in the last year is a useful measure, we also seek to understand the lasting impact of audits on public sector accountability and performance. It is useful, therefore, to see how agencies are progressing on recommendations from our older audits.

The *Government Response to the Auditor-General's Report issued in 2010–11* (21 June 2012) provided insight on agency progress in response to older audits. It showed that the majority of recommendations made by the Auditor-General are being acted on by the agencies concerned. Of the 324 responses from agencies to recommendations, 295 were supported (91 per cent) and a further 20 were being reviewed by the agencies (6 per cent).

Fewer than 2 per cent of recommendations were not supported. The report also contained advice from audited agencies on their progress in addressing these recommendations.

**Extracts from responses to older VAGO reports**

**Portfolio Departments: Interim Results of the 2009–10 Audits (July 2010)**

'The Department has established a system for managing conflicts of interest in the form of clear directions for all employees to follow. The Department maintains up-to-date conflict of interest disclosure records as well as manages an Employee Declaration of Private interests register.'  
*Response provided by the Department of Sustainability and Environment*

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

'New output performance measures for 2011–12 have been introduced and outdated measures have been removed.'

*Response provided by the Department of Health*

**Effectiveness of Victims of Crime Programs (February 2011)**

'Community Operations/Victims Support Agency has developed a comprehensive Victims Assistance and Counselling Program Practice Manual that addresses the requirement to provide more guidance to Victims Assistance and Counselling Programs.'

*Response provided by the Department of Justice*

Through its inquiry program, PAEC follows up recommendations and matters that the Auditor-General has raised in reports to Parliament. These inquiries also provide us with information on agencies' implementation of our recommendations.

In 2011–12, PAEC reported on its inquiries into six Auditor-General reports tabled between January and June 2009:

- *Preparedness to Respond to Terrorism Incidents: Essential Services and Critical Infrastructure* (January 2009)
- *Access to Public Hospitals* (April 2009)
- *Management of School Funds* (April 2009)
- *Withdrawal of Infringement Notices* (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).



These were the first follow-up inquiries conducted by the newly formed committee. Generally, PAEC supported the direction of the Auditor-General. As well as finding progress in many of the areas identified by VAGO, PAEC identified shortcomings, often reinforcing VAGO's recommendations.

### Excerpts from PAEC's follow-up inquiries

#### **Access to Public Hospitals (April 2009)**

'It was... pleasing to the Committee to find that a number of initiatives have been subsequently taken or commenced at state level to address the audit findings and recommendations.'

'Central to the actions taken... [was] the release by the government of its *Health Priorities Framework 2012–22: Metropolitan Health Plan* in May 2011.'

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

'The Committee considers that, as a consequence of this ongoing lack of acceptance of its responsibilities as alerted to by the Auditor-General... the Department has not adequately supported the Premier, as head of Government, and 'Minister' ultimately responsible and accountable to Parliament and the Community for critical infrastructure protection arrangements across the whole-of-government.'

#### **Management of School Funds (May 2009)**

'The Committee does not consider the actions referred to in the Department of Education and Early Childhood Development's response to have satisfactorily addressed the Auditor-General's recommendation which was focused on the legislative reporting requirements of school co-operatives not how their transactions should be recorded in schools' financial systems.'

In June, the government tabled its response to the first two of these follow-up inquiries: *Preparedness to Respond to Terrorism Incidents: Essential Services and Critical Infrastructure* and *Access to Public Housing*. The audited agencies supported most of PAEC's recommendations.

### Changes to agency practices

During, and following our audits, we often see change occur in direct response to our findings and recommendations. We receive advice from agencies about these changes.

### Observations from audit teams of changed practices

#### **Personal Expense Reimbursement, Travel Expenses and Corporate Credit Cards (May 2012)**

The audit identified uncertainty in the Department of Treasury and Finance's (DTF) Purchasing Card Rules around what constituted 'significant unauthorised use' of a purchasing card. During the audit, DTF amended the guidelines to include criteria for determining whether unauthorised use of a card is significant.

#### **Management of Road Bridges (December 2011)**

VicRoads is adjusting its approach to lobbying for bridge asset management funds through the annual Budget and Expenditure Review Committee process. It is now starting to focus on potential improvements for services and customers.

#### **Supporting Changes in Farming Practices: Sustainable Irrigation (October 2011)**

During the audit, Department of Sustainability and Environment staff indicated the audit had identified a number of areas for improvement. Activity was initiated during the audit to commence work on improvements to the Sustainable Irrigation Program.

Our reports can also stimulate or support a fundamental review of a particular area or business, as government seeks to address our findings and recommendations in a comprehensive way.

One example of this was our performance audit *Municipal Solid Waste Management* (June 2011). This audit was critical of Sustainability Victoria (SV) and, together with a review commissioned by the minister, this audit was a driver for a new strategic direction for SV. SV's final review report, published in February 2012 drew significantly on our report.

Our *Access to Public Housing* (March 2012) performance audit is another example of an audit supporting a fundamental review of a program. This audit was highly critical of the Department of Human Services' planning for public housing. The audit recommendations have since been adopted by government to drive public discussion into the future operation of public housing. The consultation paper *Pathways to a fair and sustainable social housing system* drew heavily on the report.

## Value of audits to audited agencies

Another way of understanding the impact of our audits is to assess the extent to which the audited agencies found value in the audit. This gives us some indication of whether the audit was useful to the agency and therefore, likely to have impact. For every audit, we seek this information through a post-audit survey.

These surveys give us information on the extent to which the audited agency agreed that the:

- audit offered value to the agency through its assurance on the performance and accountability of the audited activity
- findings and/or recommendations of the audit have the potential to improve the financial management of the agency or to improve the administration of the audited activity.

For attest audits the ratings for audit value survey questions showed a slight improvement this year, from 73 to 74 out of 100. For performance audit the ratings also showed an improvement, from 65 to 69. These results are promising, as they suggest agencies may be more committed to addressing our findings and recommendations.



### Extracts from surveys

'As has been the case in previous years, the audit team has again performed on site in a professional, competent manner, displaying a respectful and courteous approach.'

'It is useful to have audits such as these highlight certain shortcomings. We were well aware of our position and had already started motions to improve this, but it is indeed a good impetus to improve our processes.'

## Impact on public debate

Public debate often draws on our audits. This debate can create greater transparency around some key accountability and performance issues raised by our audit program, and encourage the government to act on some critical findings. The extent to which the public responds to and uses our reports is, therefore, another important factor when measuring the impact of our work.

We measure our impact on public debate though:

- correspondence from the public
- media coverage
- website activity.

### Correspondence from the public

Members of the public often write to us about specific audits or areas of public sector activity. In 2011–12, the number of unsolicited inquiries increased by 45 per cent from 96 to 139 letters, emails or phone calls.

There was substantial correspondence around issues relating to the *Compliance with Building Permits* (December 2011) audit. Correspondence like this also helps inform our own planning for future audit topics.



For more information on our correspondence with the public, see page 20.

## Media coverage

While we do not set out to gain media attention, our reports can ignite debate on issues of public interest in the media. To some extent, the degree of media attention reflects whether an issue is topical. Also, media coverage tends to focus on exceptions and rarely canvasses positive findings. Nonetheless, when considered within a suite of measures, the degree of media interest does provide some insight into the level of public interest for VAGO reports. Media attention can also be a positive reflection on the relevance of our topic selection.

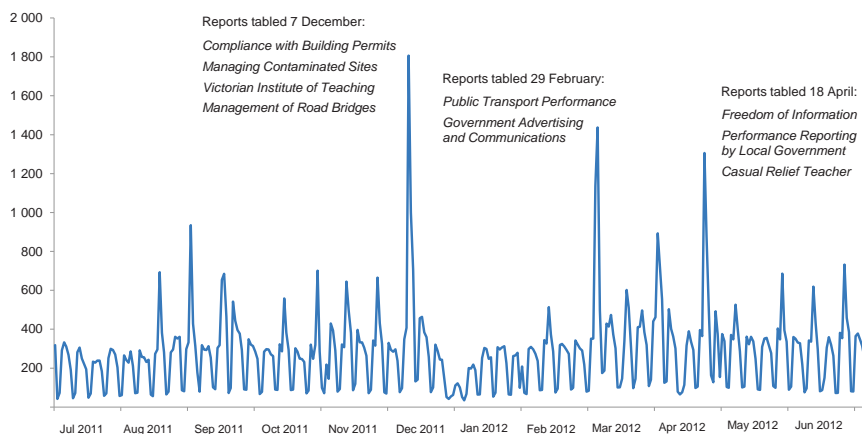
Our reports regularly feature in national, state, local and regional media. In 2011–12, 341 print articles and 358 broadcast items (radio or television) mentioned our reports. This is a decrease of 25 per cent compared to 2010–11, due in part to the significant media interest in 2010–11 in the performance audit *Access to Ambulance Services* which received 360 references alone. However, across the year, our reports were mentioned more consistently. For 47 of the 52 weeks of 2011–12, there was at least one mention of one of our reports in the print media, compared to 41 weeks in 2010–11.

Several of our reports generated intense media interest and coverage. The *Road Safety Camera Program* (August 2011) received 41 per cent of the total media coverage related to 2011–12 audits. Print media coverage of this audit began in early July 2011 prior to tabling and was reported up until mid-April 2012. *Public Transport Performance* (February 2012), *Access to Public Housing* (March 2012), *Maternity Services: Capacity* (October 2011) and *Compliance with Building Permits* (December 2011) also received significant coverage.

The Auditor-General and VAGO were also mentioned frequently in non-report related articles or items. Ninety print articles and 13 broadcast items referred to the Auditor-General or VAGO in this manner. Topics included the establishment of the anti-corruption commission, requests for investigation into issues, discussion of future reports and assurance of financial statements.

Our older reports continued to receive media attention, with 24 audit reports from previous years mentioned in print (102 articles) or broadcast (48 references). Mentions of older audit reports primarily focused on reports from 2010–11 but dated back as far as 1986.

[Figure 17] Website visits 2011–12



## Website activity

All VAGO reports are published on the VAGO website and increasingly, this is how the community accesses our reports.

In 2011–12, there were around 102 000 visits by 61 149 unique visitors to the VAGO website, an increase of 33 per cent. New visitors made up 56 per cent of all visitors. Figure 17 shows the website visits in 2011–12. The peaks coincide with tabling days.



P40

The Auditor-General made 23 speeches on key themes from audits and other relevant topics.



P40

We developed an international engagement strategy to improve international liaison.



P44

Our costs as a proportion of state transactions and assets compare well with other audit offices.

# Promoting accountability and continuous improvement

In this chapter we discuss VAGO's endeavors to be a catalyst for continuous improvement in the accountability and performance of the public sector.

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## Introduction

VAGO's overriding purpose is to provide assurance to Parliament and as such, we focus on completing rigorous audits and meeting our output measures.

Our *Strategic Plan 2010–11 to 2014–15* sets out our objectives and strategies to fulfil this purpose, as shown in Figure 18.

[Figure 18] VAGO's 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

There are many activities we undertake to achieve our vision of being a catalyst for continuous improvement in the accountability and performance of the public sector.

We look to leverage our reports and experience to improve other activities and aspects of the state and local government sectors. Internally, we aim to model the values of accountability and continuous improvement in our own processes and practices.

## Leveraging our reports and experience

We look for opportunities to share lessons and the knowledge we have gained from our audits with government—including in other jurisdictions—peak bodies, individual agencies and the general public. This year, we continued a high level of engagement in various forms, and have identified some new ways of engaging with stakeholders.

Activities included:

- working with other integrity bodies
- engaging with the Australasian Council of Auditors-General
- international engagement
- contributing to inquiries and reviews
- presentations and addresses
- regional and metropolitan engagement
- Parliament House Open Day
- improving accessibility of reports.

## Working with other integrity bodies

Increasingly, there are occasions when VAGO sees merit in working with other integrity bodies on projects. While we are prevented by the *Audit Act 1994* from sharing information collected during the course of an audit, we seek ways to work within these limitations.

In recent years, both the Auditor-General and the Victorian Ombudsman have identified recurring issues with information and communication technology enabled (ICT-enabled) projects. In 2011–12, we worked with the Ombudsman on an investigation into this issue. Two experienced VAGO staff were seconded to the Ombudsman's office to assist in the investigation. On 23 November 2011, the Victorian Ombudsman tabled its *Own motion investigation into ICT-enabled projects*, acknowledging the contribution provided by VAGO.

We are also working with other Australian audit offices to conduct a concurrent audit. Seven jurisdictions will conduct audits on the implementation of the National Partnership Agreement on Homelessness, using a common scope and planning approach. Our audit will examine performance in Victoria. Each jurisdiction aims to table a report by the end of the first quarter of 2013. Taken together, these should provide a national picture on the effectiveness of the partnership agreement.

## Engaging with the Australasian Council of Auditors-General

In 2011–12 VAGO continued its active involvement in the national and international development of public sector audit, through our participation in the Australasian Council of Auditors-General (ACAG).

The Auditor-General attended ACAG meetings in Sydney and Brisbane in 2011, and Sydney again in March 2012 as part of a broader collaborative meeting between ACAG and the Canadian Council of Legislative Auditors.

VAGO also participates in specialist ACAG networks that allow senior staff to share views and learn from each other. In 2011–12, VAGO attended or hosted meetings of the ACAG:

- Financial Reporting and Auditing Committee
- Heads of Performance Audit
- Practice Management Group
- Quality Assurance Panel
- Parliamentarian and Client Surveys Macro-benchmarking Panel.

VAGO exchanged information with ACAG members through 'round-ups' on strategic topics, monthly newsletters and seminars. Strategic topics discussed included:

- preparation and communication of forward audit plans
- financial accounting treatments
- responding to exposure drafts of proposed new accounting standards
- audit legislation and powers of Auditors-General
- macro-benchmarking
- national reforms and their impact.

## Pacific Association of Supreme Audit Institutions (PASAI)

PASAI is the official association of supreme audit institutions in the Pacific region. While VAGO is not a national audit institution, we engage with and support this association in a pastoral role.

In August 2011, the Auditor-General and a Performance Audit Director attended the PASAI Congress in Tonga. Attendees examined tools and strategies to assist with organisational change.



VAGO also plays a leading role in PASAI's Regional Working Group on Environmental Auditing. As well as engaging with the group throughout the year, representatives from VAGO attended its meeting in Sydney in April 2012. VAGO presented on our recent suite of performance audits relating to the environment and sustainability.



For a list of delegations, placements and secondments, see Appendix 2.

### International engagement

VAGO has continued to receive significant interest from international offices seeking to develop their capability, and form or strengthen relationships with VAGO.

In 2011–12, we had the opportunity to share our insights, systems and practices with delegates from a number of organisations. We also participated in secondment and internship programs with government organisations and universities from around the world. Appendix 2 lists these delegations, placements and secondments.

To maximise the value that VAGO and the visiting offices get from this engagement, in 2010–11 we began consultations with other Australian public sector audit offices to develop a nationally coordinated approach to requests for delegations, placements, and secondments.

In 2011–12, we formalised our own activities through the development of an international engagement policy and a secondment policy. These new policies will assist in our engagement with international stakeholders interested in visiting VAGO, and allow us to prioritise opportunities for our staff.

### Contributing to inquiries and reviews

In addition to the ongoing PAEC follow-up of audit reports covered in pages 33–34, VAGO seeks to contribute to Parliamentary and government reviews to share

relevant audit findings and provide an audit and accountability perspective.

During 2011–12, we contributed to PAEC's *Inquiry into Effective Decision Making for the Successful Delivery of Significant Infrastructure Projects*. We made a submission to the inquiry in November 2011 and presented evidence to PAEC at a public hearing in March 2012. Engagement with PAEC on this inquiry continues.

Also in 2011–12, VAGO drew on previous audit reports to provide evidence at a public hearing for the Road Safety Committee's *Inquiry into Motorcycle Safety*.

### Review of the Audit Act 1994

In 2010–11, PAEC conducted an inquiry into the *Audit Act 1994* and tabled its final report in October 2010. VAGO contributed extensively to this inquiry.

Following legislation introducing the Independent Broad-based Anti-corruption Commission, the review was deferred to 2012. VAGO continues to consult with the Department of Treasury and Finance on the review.

### Presentations and addresses

Throughout 2011–12, the Auditor-General and senior VAGO staff presented at conferences, educational courses, and professional and industry groups. Presentations ranged from the discussion of an individual audit to broader conversations on issues such as accountability, governance and asset management.

The Auditor-General gave keynote addresses at national 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.



For a list of the Auditor-General's presentations please see Appendix 2.



### Key audit themes

Each year we look back over the year's audit reports to identify common challenges in the public sector. We share these themes with ministers, heads of departments, audit committees, and other relevant stakeholders. These are called our key audit themes. Several of the Auditor-General's presentations promoted our analysis of these key themes.

In August 2011, we launched our 2010–11 key audit themes at a forum for stakeholders. This was the third year of our themes analysis.

### Regional and metropolitan engagement

To enhance relationships with audited entities, the Auditor-General regularly visits regional areas. In 2011–12, the Auditor-General visited Bendigo, Geelong and

Dandenong. Attendance was strong, and included representatives from local government, water authorities, health services and educational institutions. A number of participants commented that the sessions are informative, particularly information on the key audit themes and our annual plan.

### Parliament House Open Day

Parliament House Open Day is an annual event for the public. VAGO attended again this year to engage with the public, communicate about VAGO and promote our reports.

### Improving accessibility of reports

To promote broader access to our reports, all VAGO reports are now published in HTML, improving search capability.



#### Key audit themes 2010–11

- Managing performance of outsourced services
- Regulation, compliance and oversight
- Using evidence to support decision-making and planning
- Reporting meaningfully on performance
- Managing risks from joined-up activities
- Probity in procurement
- Security of systems and information
- Financial sustainability
- Funding and governance models

## Accountability and continuous improvement at VAGO

Our commitment to continuous improvement and accountability applies equally to our own work as it does to the rest of the public sector. To help us to continually raise our standards, we use a range of internal and external quality assurance processes to better meet the needs of Parliament and audited agencies.

We have developed a continuous improvement register, to consolidate identified improvements from a range of sources, including: legislative reviews of other audit offices, preparatory work for, and findings from, the 2010 performance audit of VAGO, audited agency and Parliamentarian survey results, external reviews of audits and internal audit reports. Progress on the improvement initiatives is monitored and reported to the

Executive Management Group biannually.

Internal quality assurance processes include our:

- framework for selecting areas of audit focus
- standards-based audit methodology
- debrief process
- quality assurance framework
- internal audit.

Our external quality assurance processes include:

- Parliamentary accountability measures
- cold reviews
- surveys of Parliamentarians and audited agencies (discussed on pages 16, 18 and 26)
- benchmarking our activities.



For more information on our framework for selecting areas of attest audit focus and performance audit topics, please refer to Appendix C and D of our *Annual Plan 2012–13*.



### Additional Auditing Standard 2006:02

This standard requires that, where Auditing and Assurance Standards issued by CPA Australia and the Institute of Chartered Accountants in Australia have not yet been revised and reissued by the Auditing and Assurance Standards Board (AuASB), they are to be applied where they are not inconsistent with the AuASB's standards.

In 2011–12, this included the following standards issued by the Australian Accounting Research Foundation, on behalf of CPA Australia and The Institute of Chartered Accountants in Australia:

- AUS 804 The Audit of Prospective Financial Information
- AUS 810 Special Purpose Reports of the Effectiveness of Control Procedures.

## Framework for selecting areas of audit focus

The quality of VAGO's reports and advice begins with the choice of the right area of audit focus. Each year we select attest audit areas of focus and performance audit topics using methodologies which comply with the Act and Australian auditing standards.

### Selection of attest audit areas of focus

Each year, our attest auditors review and test key internal controls over financial systems of each government entity to identify any material misstatements in its financial report. Other systems and controls are assessed annually, but tested less frequently. VAGO identifies 'areas of focus', which we report on in more detail in our sector-based reports. Coordinating our audit coverage of these systems across categories of entities enables us to identify, draw out and report on systemic or sector-specific issues.

### Selection of performance audit topics

VAGO uses a topic selection framework for selecting areas of performance audit focus. We identify areas of economic, social and environmental risk in the public sector. This is informed by:

- analysis of public sector programs
- environmental scanning
- stakeholder consultation
- findings from attest audits
- issues raised in correspondence from Members of Parliament, and the public.

This framework is aligned with the Victorian Government's five goals for a stronger, fairer and safer Victoria as outlined in the Governor's speech at the opening of the 57<sup>th</sup> Parliament in December 2010.

## Requests from Members of Parliament

Parliamentarians write to the Auditor-General to raise matters of concern and suggest areas for audit attention. As with all inquiries, these are assessed by the office to determine risk and materiality.

In 2011–12 the Auditor-General received six inquiries from Members of Parliament seeking to stimulate audit activity. The performance audit *Road Safety Camera Program*, which was tabled in August 2011 arose from a request made by a minister.

The performance audit *TAFE Governance* was tabled in October 2011. The need for this audit was identified through VAGO's attest audit activities but was also raised by a Member of Parliament.

## Standards-based audit methodology

Under the *Audit Act 1994*, we must comply with the auditing standards issued by the Australian Auditing and Assurance Standards Board. These cover aspects of an audit including planning, communication, conduct, evidence, quality assurance, delegations and reporting.

The *Audit Act 1994* also enables the Auditor-General to apply additional auditing standards for the conduct of audits. An additional auditing standard was applied in 2011–12: *Additional Auditing Standard 2006:02*.

We comply with all Australian Auditing Standards and have developed our audit methodologies based on these standards.

### Attest audit methodology

VAGO's attest audit approach enables us to form an audit opinion on agencies' financial statements and non-financial performance statements efficiently and effectively.

Our attest audit methodology is integrated into our electronic audit toolset, IPSAM, which was developed under a joint arrangement with the Queensland Audit Office and is either in use, or being implemented, in six Australian jurisdictions. By following IPSAM procedures, our attest audits comply with Australian Auditing Standards.

### Performance audit methodology

VAGO's performance audits are conducted using our own performance audit methodology.

We use an electronic database, AmP, to document work and evidence, and assist in managing and reviewing the audit project.

AmP contains policies, guidance and standard procedures which must be followed when carrying out a performance audit. By following all AmP procedures, our audits comply with Australian Auditing Standards.

### Debrief process

At the end of every performance audit we conduct an audit debrief to reflect on the audit, identifying positives and negatives about the quality of the audit process and reporting.

Quantitative and qualitative information is collected about each report and areas for improvement identified are considered in future activities.

### Quality assurance framework

In 2011 VAGO adopted a quality assurance 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 ACAG's 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*.

In May 2012, VAGO's compliance with the ACAG Governance and Audit framework was assessed through a peer review. Our self-assessment and the external assessment of the maturity of these systems and processes against the framework have demonstrated 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.

### Parliamentary accountability measures

The *Constitution Act 1975* states that the Auditor-General has complete discretion in his or her activities and is not subject to direction from anyone. Balancing these profound protections of independence is a suite of accountability requirements.



#### Safeguarding quality

We 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 review and confirm the quality of the audit. This applies to all high-risk and material entity attest audits and all audits in performance audit.

VAGO is subject to both attest and performance audits. Parliament appoints our auditors, on the recommendation of PAEC. Our financial statements are audited annually, and every three years we are subject to a performance audit. PAEC determines the performance audit's terms of reference. Our next performance audit is in 2013.

In addition to these measures, there are accountability measures over our audit process. Under the *Audit Act 1994*, we must consult with PAEC when developing our annual plan, and on the specification for each performance audit.

### Cold reviews

To seek assurance that our audits meet the profession's and VAGO's quality standards, we engage external parties to undertake a 'cold' review of a sample of completed attest and performance audits, including audits conducted by external audit service providers.

Matters covered in the reviews of attest audits include determining whether:

- professional and comprehensive assessments of risk (including IT risk) are documented and linked to the audit strategy
- appropriate strategy and audit programs have been developed and used on audits
- adequate audit evidence supports the conclusions and recommended audit opinion
- reports and management letters were clearly presented, adequately supported and incorporated key issues that were noted and agreed with management.

Results from our cold reviews of attest audits are now reported as one of our performance measures of quality. Please see page 26 for discussion of results of cold reviews of attest audits.

For performance audits, we engage external parties to undertake a review of a sample of performance audits to assess whether the:

- audits have been conducted in an effective, efficient and economical way in accordance with standards, legislation and VAGO's audit methodology.
- findings, conclusions and recommendations are supported by sufficient and appropriate evidence.

### Benchmarking our activities

VAGO cooperates with audit offices across Australia in measuring quantitative and qualitative benchmarks of the operations of audit offices and specific characteristics of each jurisdiction. Results of this benchmarking are used internally to identify priority areas for improvement.

Two of the measures compare audit office costs as a proportion of total state assets and transactions. In 2011–12, VAGO's total audit cost:

- as a proportion of public sector transactions was 0.30, compared to the national average of 0.35
- as a proportion of public sector assets was 0.12, compared to the national average of 0.17.

These results compared with other offices as expected because, while Victoria performed better than the national average, this should be interpreted with caution given the differences between jurisdictions and audit offices.

When allowing for the fact that overall we produce a higher proportion of performance audits, we feel we are performing well on these measures.



#### Findings from cold reviews

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



P 54

Over 87 per cent of all VAGO employees have a qualification at bachelor level or higher.



P 58

We met all our occupational health and safety performance indicators.



P 59

We began implementing our two-year environmental strategy for 1 July 2011 to 30 June 2013 – our second such strategy.

# Managing VAGO

In this chapter we provide information about the management of VAGO, compliance issues, and workforce data.

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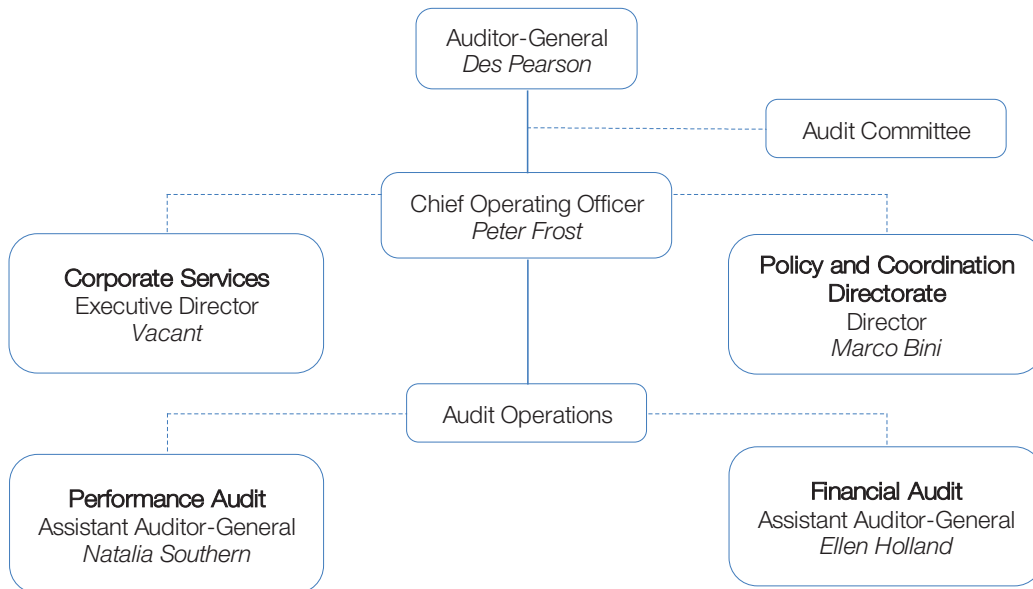
# Governance

## Senior management

One of the challenges brought on by the success of VAGO's audit program is that our staff are in great demand. In 2011–12, Andrew Greaves, who was an Assistant Auditor-General in Victoria since 2006, was appointed Auditor-General in Queensland. In May we welcomed Natalia Southern as the new Assistant Auditor-General for Performance Audit.

Former Executive Director of Corporate Services, Gail Conman, left late in 2011–12 to take up a new role as Project Director for the Melbourne Markets Redevelopment. A recruitment exercise will be run in the first quarter of 2012–13 to permanently fill this position.

[Figure 19] Organisational chart



### 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

**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 this time 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.



Ellen Holland

### Assistant Auditor-General, Performance Audit

**Natalia Southern, BBus (Hons), MPubPol**

Natalia joined the Auditor-General's Office in May 2012. Natalia is an economist with almost 20 years of experience in a range of Commonwealth and state policy and regulatory bodies. These include the National Competition Council, Victorian Department of Treasury and Finance, the Productivity Commission and the Essential Services Commission.

Prior to joining the Auditor-General's Office, Natalia was a senior consultant at ACIL Tasman where she advised government and private sector clients on energy, water and transport sector issues.

### Director, Policy and Coordination Directorate

**Marco Bini, MCom, LLM, MPubPol**

Marco joined the office in September 2007 and was appointed Director of the Policy and Coordination Directorate in January 2009. He has significant public sector experience including with the Department of Premier and Cabinet, WorkCover, and the State Revenue Office.

Marco provides a range of legal, policy and administrative advice to the office including on statutory interpretation, contracting, application of public sector legislation, and legal issues arising from audits.



Peter Frost



Natalia Southern



Marco Bini



## Executive Management Group

The Executive Management Group (EMG) members are the Auditor-General, Chief Operating Officer, Assistant Auditors-General, Executive Director Corporate Services, and the Director Policy and Coordination Directorate.

EMG meets monthly 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 the EMG include:

- overseeing the strategic direction of the office
- overseeing delegations
- monitoring performance against the strategic and business plans and monitoring compliance
- keeping abreast of critical whole-of-government issues and developments
- fostering continuous improvement across VAGO.

The following subcommittees report to the EMG:

- Accredited Purchasing Unit
- Occupational Health and Safety
- Recognition Review
- Staff Development and Consultation Group.

The following subcommittees report directly to the Auditor-General:

- Remuneration Committee
- Technical Issues Committee
- Audit Committee.

## Remuneration Committee

This committee comprises the Auditor-General, the Manager People and Culture, and an independent member. In 2011–12, the independent member was 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.

## Technical Issues Committee

This committee comprises the Assistant Auditor-General, Financial Audit, the Director, Methodology and Standards and a Financial Audit Director.

The committee provides advice and recommendations to the Auditor-General on proposed modifications to attest audit opinions, the appropriate policy or guidance that VAGO should adopt in relation to significant financial reporting and auditing issues, and issues affecting the legislative mandate of the office.

## Audit Committee

### Audit Committee Chair's report (year ended 30 June 2012)

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

All committee members are independent, non-executive members who are appointed by the Auditor-General for a maximum term of three years and are eligible to be reappointed for one further term.

The term of Mark Anderson, chair of the Audit Committee since 1 July 2006, ended on 30 June 2012.

Joanna Perry was appointed Chair from 1 July 2012. Deidre O'Donnell resigned in December, and Sara Watts was appointed in January 2012. The members of the Audit Committee for the year ended 30 June 2012, their qualifications and attendance at meetings, are set out in Figure 20.

**[Figure 20] Audit committee members 2011–12**

Committee member	Meetings attended	Meetings held
Mark Anderson (Chair to 30 June 2012 when term finished) FCPA, MACS, FAICD Chief Executive Officer, Dousta Galla Aged Services	4	4
Kerry Jacobs BCom, MCom(Hons), PhD, FCPA, FCA, ICAA, NZICA Professor of Accounting, the Australian National University	4	4
Deirdre O'Donnell (resigned 31 December 2011) BA, MBA, MCommrclLaw New South Wales Information Commissioner	2	2
Joanna Perry (Chair from 1 July 2012) MNZM, FCA (NZICA), FCA (ICAEW), MA New Zealand professional non-executive director	4	4
Sara Watts (appointed 1 January 2012) BSc, MBA, GAICD, CPA Chief Financial Officer, IBM Australia and New Zealand	1	2

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 recommending its adoption by the Auditor-General
- reviewing the closing report from the external financial auditor, which identified no significant issues

- 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 any of the areas of work undertaken during the year which were Penetration Testing, IT Information Security, Quality Assurance Processes, Occupational Health and Safety, Risk Management Framework, General Financial Controls and ICT Project Management
- reviewing the office's risk management reports and noting that risks were being appropriately monitored and addressed by the office
- considering whether the office has appropriate policies and

practices in place to review and implement, where appropriate, recommendations from external reviews, including Parliamentary committee inquiries

- considering whether the office 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.



Joanna Perry (Chair)  
8 August 2012

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## Compliance with legislation and policy

This section discusses legislation and policy with which VAGO is required to comply and report on this compliance.

### Risk management

The following is an 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 AS/NZS 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*

8 August 2012

## Whistleblowers legislation

The *Whistleblowers Protection Act 2001* was introduced in Victoria on 1 January 2002. The legislation encourages and facilitates the making of disclosures of improper conduct by public officers and public bodies. The legislation protects whistleblowers who disclose improper public officer and public body conduct, and sets up a system to investigate disclosed matters.

The exercise of the powers and the discharge of responsibilities by the Auditor-General under the *Audit Act 1994* are expressly excluded from application of the legislation. The administrative processes of the office, however, are fully subject to the legislation. There were no disclosures on VAGO administrative matters during 2011–12.

VAGO has developed procedures for handling whistleblower disclosures and the Executive Director, Corporate Services is VAGO's protected disclosure coordinator. These procedures have been distributed to staff, and members of the public can request a copy. In 2011–12, all staff were required to complete training in these procedures.

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 2011–12, VAGO received one referral from the Ombudsman for examination under the *Audit Act 1994*.

## 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 *Freedom of Information Act 1982* provides the right of the community to access, as far as possible, information held by the Victorian Government.

Section 20A of the *Audit Act 1994* 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. VAGO received no applications under this legislation in 2011–12.

## National Competition Policy

The Victorian Government is part of the inter-governmental Competition Principles Agreement. The principle of this policy is to not restrict competition.

VAGO is compliant with the National Competition Policy, including compliance with requirements of the Department of Treasury and Finance's Competitive Neutrality Policy.



### Freedom of Information audit

In 2011–12, we conducted a performance audit which examined the extent to which the 11 Victorian public sector departments and Victoria Police met the requirements of the *Freedom of Information Act 1982*.

The report, which tabled in April 2012, is available on our website, [www.audit.vic.gov.au](http://www.audit.vic.gov.au), as are all our reports.

## 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). This is intended to promote employment and business growth by expanding opportunities for local industry. 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 2011–12.

## Building Act

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

## Managing and responding to complaints

VAGO has two complaints policies—*Managing complaints about the conduct of audits* and *Managing complaints about matters other than audits*. These form part of our *Framework for managing complaints about VAGO*.

In accordance with these policies, a report is made to senior management on performance against time lines, and on trends and issues arising from the complaints and our responses.

In 2011–12, three complaints were made to VAGO under these policies. Two were made under the *Managing complaints about the conduct of audits* policy and one was made under the *Managing complaints about matters other than audits* policy.

Of the three complaints, two were acknowledged within five business days and one complaint was acknowledged within six business days. One complaint was finalised within 28 days. The other two complaints were more complex and the complainants were advised of the extension of time required within 28 days. One complaint took 53 days to investigate and finalise, and the other took 113 days.

For the two complaints about the conduct of audits, we found that the audits complied with Australian Accounting Standards and the requirements of the *Financial Management Act 1994*. The other complaint was upheld and an explanation was provided to the complainant.

Due to the small number of complaints received, there are no trends to report.

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## Our staff

VAGO is committed to having the right mix of people, in the right place, at the right time. We aim to foster a culture of excellence.

We value our people and seek to support them by providing them with a broad range of flexible working arrangements, challenging variety in their roles, and a close-knit, collaborative working environment.

## Workforce capacity

### Our staff profile

VAGO staff numbers are reported in accordance with the financial reporting direction FRD 29. Our overall headcount at 30 June 2012 was 176, with 162 ongoing staff and 14 fixed-term or casual staff.

Of our 162 ongoing staff, 142 work full-time and 20 work part-time. Of our 14 fixed-term and casual staff, 12 work full-time and two work part-time. Figure 22 has a breakdown by gender, age and classification.

**[Figure 21] Employee numbers at 30 June 2012**

Year	Overall	Ongoing		Fixed-term and casual	
	Total number (headcount)	Ongoing (headcount)	Ongoing FTE	Fixed-term and casual (headcount)	Fixed-term and casual FTE
2009	153	142	139.2	11	10.0
2010	173	142	138.8	31	28.5
2011	170	151	146.1	19	17.3
2012	176	162	152.0	14	10.6

**[Figure 22] Employee profile by gender, age and classification**

	30 June 2012				30 June 2011			
	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	69	66.3	3	2.0	74	73.2	4	3.5
Female	93	85.7	11	8.6	77	72.9	15	13.8
<b>Age</b>								
Under 25	12	12.0	1	0.0	12	12.0	2	1.3
25–34	66	60.8	8	6.0	55	52.7	12	11.1
35–44	42	38.6	2	1.6	38	36.6	2	2.0
45–54	24	23.0	2	2.0	28	27.2	2	2.0
55–64	17	16.6	1	1.0	18	17.6	1	0.9
Over 64	1	1.0	0	0.0	0	0.0	0	0.0
<b>Classification</b>								
VPS Executives	19	18.9	0	0.0	19	18.8	0	0.0
VPSG1	0	0.0	0	0.0	0	0.0	0	0.0
VPSG2	9	8.4	2	1.0	14	13.4	3	2.3
VPSG3	32	31.3	4	3.0	26	25.7	2	1.5
VPSG4	32	30.2	2	1.0	26	25.0	9	8.6
VPSG5	25	22.7	2	2.0	23	22.0	3	3.0
VPSG6	38	33.9	3	2.6	34	32.6	0	0.0
VPSG7 <sup>(a)</sup>	7	6.6	1	1.0	9	8.6	2	1.9

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

### Employee qualifications and training

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. Many of our staff are qualified in the accounting field, and we also have economists, forensic accountants and staff with other qualifications, such as IT, policy, business and public sector administration.

Over 87 per cent of all VAGO employees have a qualification at bachelor level or higher, with a large

proportion of double degrees, and 2.8 per cent have or are studying for a PhD. A breakdown by staff type and comparison to the wider public sector is shown in Figure 23.

In addition, our financial auditors are required to undertake professional accounting accreditation from CPA Australia or Chartered Accountants (CA) Australia. All senior managers and above must be accredited by these organisations or a similar overseas organisation. In 2011–12, 32 VAGO employees had received CPA accreditation, and 19 had received CA accreditation. Six staff members had accreditation from similar overseas organisations.

[Figure 23] Qualifications of VAGO staff compared 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	39.7	57.1	96.8
Financial Audit staff	76.7	15.5	92.2
Other staff	26.8	36.6	63.4
All VAGO staff	52.3	35.2	87.5
SSA figures for public sector staff <sup>(a)</sup>	32.0	34.0	66.0

(a) State Services Authority results of the 2010 and 2011 People Matter survey.

We also invest heavily in learning and development for our staff. On average, VAGO staff spent 6.1 days in training in 2011–12. This average figure includes hours spent in training by VAGO employees as well as secondees, temporary staff and contractors who have worked with VAGO during 2011–12.

This training was delivered at a total cost of \$582 737. Learning and development expenditure includes expenditure on training providers, study assistance, external course and seminar attendance, coaching, and professional memberships.

This overall cost does not include the salary cost for staff hours spent receiving or delivering training.

### Recruitment and retention

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

In 2011–12, the overall voluntary turnover was 11.9 per cent, compared with 19.7 per cent for 2010–11. In 2011–12, there were six exemptions made from notification of vacancy.



[Figure 24] Departures from VAGO

Year	Ongoing (including executives)		Fixed term and casual		Voluntary turnover rate (per cent)
	Employees (headcount)	FTE	FTE		
2008–09	33	33.0	6.0		23.7
2009–10	14	14.0	16.0		17.3
2010–11	27	26.4	18.8		19.7
2011–12	21	19.7	11.8		11.9

[Figure 25] Exemptions from notification of vacancy, 2011–12

Classification	Number of exemptions	Circumstances as defined in office policy
VPSG 3.2	1	This was a 12 month fixed term contract that was exempted from advertising due to recent market testing being unfruitful and no scope for advertising the position internally due to the low grade of the position.
VPSG 4.1	2	These roles were directly appointed to ongoing roles due to the incumbents having significant skills that were brought to the positions and their length of time in the roles beforehand as fixed-term contractors. This meant it was highly likely that going to market would not find candidates more suitable than the incumbents.
VPSG 4.1	1	This vacancy was required to be filled at short notice. The individual was offered a 12 month fixed term contract to fill operational needs.
VPSG 5.1	1	This vacancy was required to be filled at short notice. The individual was offered a 12 month fixed term contract to fill operational needs.
STS 7.1	1	This position was granted on a 12 month fixed-term contract to back-fill an employee on maternity leave. The incumbent had acted for this person previously and due to their skills and organisational knowledge it was highly unlikely that going to market would find more suitable candidates.

## Executive information

This information is available to members of Parliament and the public on request.

[Figure 26] Number of executive officers classified into 'ongoing' and 'special projects' at 30 June 2012

Classification	All		Ongoing	
	2011–12	2010–11	2011–12	2010–11
EO1	1	1	1	1
EO2	3	4	3	4
EO3	15	14	15	14
<b>Total</b>	<b>19</b>	<b>19</b>	<b>19</b>	<b>19</b>

Note: VAGO has no 'special project' executives.

[Figure 27] Breakdown of executive officers into gender for 'ongoing' and 'special projects' at 30 June 2012

Classification	Male		Female		Ongoing vacancies
	Number	Variance	Number	Variance	
EO1	1	0	0	0	0
EO2	1	-1	2	0	1
EO3	10	0	5	1	3 <sup>(a)</sup>
<b>Total</b>	<b>12</b>	<b>-1</b>	<b>7</b>	<b>1</b>	<b>4</b>

Note: VAGO has no 'special project' executives.

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

[Figure 28] Reconciliation with executive numbers at 30 June 2012

	30 June 2012	30 June 2011
Executives employed with total remuneration over \$100 000	16	20
Vacancies	3	4
Executives employed with total remuneration below \$100 000	6	4
Accountable officer <sup>(a)</sup>	1	1
Separations	-4	-6
<b>Total executive numbers at 30 June</b>	<b>22</b>	<b>23<sup>(b)</sup></b>

(a) VAGO's accountable officer is the Auditor-General who is an officer of Parliament and not a VPS executive. The Auditor-General is not included in other executive statistics presented in this report. His inclusion in this table adds one to VAGO's executive totals.

(b) Total executive positions at June 30 was 19 filled positions plus three vacancies, i.e. 22.

## Employment and conduct principles

### Diversity

VAGO continued to value diversity in the workplace in 2011–12. 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 audited agencies through:

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

We have continued the commitment through:

- provision of a range of opportunities in relation to flexible work practices, which are being taken up by an increasing number of VAGO staff
- incorporating diversity into policies and procedures.

Information collected in VAGO's annual staff review indicated that of employees who responded, 33 per cent were born outside Australia, compared to 19 per cent across the public sector.

While across the public sector, 19 per cent speak a language other than English at home, at VAGO:

- 25 per cent have a non-English speaking background
- 36 languages other than English are spoken
- 21 per cent speak at least one language other than English.

### 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
- a policy on reviewing our actions which advises 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 and expected behaviours, which is communicated during staff induction training, and periodically at staff meetings.

### Staff Development and Consultation Group

This group provides a channel of communication between staff and management on matters directly affecting the culture and business of VAGO.

The twelve-member group has a rotating chair and comprises representatives at various levels across the four business units. Meetings are also attended by the Executive Director, Corporate Services as the EMG representative, and the Manager, People and Culture. The Auditor-General and Chief Operating Officer attend at least one meeting a year.

In 2011–12, the group commenced a program of guest presentations to provide personal development for VAGO staff. The group chose presenters who could provide another perspective on issues affecting the public sector. These presentations were well received by staff in attendance and will continue into 2012–13.

### Industrial relations

VAGO continues to maintain positive industrial relations outcomes with no disputes lodged either internally or with Fair Work Australia. During the year, there was no lost time due to industrial disputes.

### Certified agreement

During 2011–12, 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 began in 2010–11, were not finalised by the end of the 2011–12 financial year.

### 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*.

A new e-learning module on the Code of Conduct was implemented in 2011–12. All staff are required to complete the module on an annual basis.

### 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.

### Social club

VAGO staff engage in a range of activities that contribute both to our own vibrant organisation and more broadly as we seek to be good corporate citizens.

Our social club arranges events throughout the year to promote a spirit of teamwork and maintain a high level of staff morale. Staff participate in various sporting events, such as Run Melbourne, and the annual sports contest with the Department of Treasury and Finance.

We also conducted a number of fundraising activities for various charities, including the Motor Neurone Disease Association of Victoria, the Australian Red Cross, World Vision and *beyondblue*.

## Workplace and environment

### Internal audit

Moore Stephens, Accountants and Advisers, are appointed as VAGO's Internal Auditor for the period 2010–11 to 2012–13. The Internal Auditor reports to VAGO's Audit Committee. A three-year internal audit program has been approved by the Audit Committee and the following reviews were carried out in 2011–12:

- Quality Assurance Processes Review
- Occupational Health and Safety Review
- Risk Management Framework
- General Financial Controls
- Procurement and Accounts Payable Review
- ICT Project Management Review

- ICT Governance Review
- Follow up Review.

### Occupational health and safety

VAGO is an office-based work environment, with staff making off-site visits to audited agencies around Victoria. The *Occupational Health and Safety Act 2004* sets out the key principles, duties and rights in relation to occupational health and safety (OH&S) in Victoria.

VAGO's OH&S management emphasises individual health, and includes a strategy to identify and manage hazards associated with psychological health. Our performance indicators are reported in Figure 29.

[Figure 29] Performance against OH&S performance indicators

Performance indicator	Performance
Coordinate and chair the OH&S committee and schedule quarterly meetings	Met Four meetings held in 2011–12, meeting the requirements of the <i>Occupational Health and Safety Act 2004</i>
All new and existing staff are offered ergonomic assessments and required products are sourced and purchased	Met All staff have been offered an ergonomic assessment within the first two weeks from the commencement date
All claims received are lodged with WorkCover within 5 working days	Met 100 per cent
All reported incidents and accidents are followed up within 24 hours and closed as soon as practicable	Met 100 per cent
Return to work plans are in place, as soon as practicable and regularly monitored until complete	Met in accordance with WorkCover requirements
Report on the number of claims and costs are provided to EMG as required	Met

In 2011–12:

- 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
- a new OH&S e-learning module was launched in 2011–12. All staff are required to complete the module on an annual basis to reinforce the safe working message
- free flu vaccinations were once again offered to staff in May 2012
- staff were able to access free workplace health checks held in July 2011
- healthy eating and cooking demonstrations were offered to staff as part of the workplace health program, which was funded by a WorkSafe grant. An extended Health and Wellbeing program has been available to staff throughout the year including facilitated activities such as yoga and pilates.

### Overseas travel

All overseas travel by VAGO staff must be approved by the Auditor-General.

In 2011–12, the following overseas travel was made by VAGO staff:

- The Auditor-General and a Performance Audit Director travelled to Tonga for the 14<sup>th</sup> Annual PASAI Congress in August.
- A Performance Audit Director travelled to Canada for a secondment with the Audit Office, British Columbia from June to August 2011.
- A Senior Financial Auditor travelled to Hong Kong for a secondment to the Audit Commission Hong Kong from January to May 2012.

### 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 includes a commitment to continually improving our environmental performance and 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.'

In 2011–12, VAGO devised its second two-year environmental strategy, running from 1 July 2011 to 30 June 2013. The new strategy includes a revised governance structure to better align responsibilities with resources.

Under the new governance structure, EMG is responsible for endorsing strategic matters relating to environmental and sustainability issues. In this role, EMG will be supported by:

- an Environmental Management Adviser for strategic and tactical advice
- the Corporate Services group for delivery and monitoring of action items and targets
- the Environmental Management Committee (EMC).



### Emissions— Scope 1, 2 or 3?

When measuring environmental impact, the ‘scope’ refers to the type of greenhouse gas emission.

**Scope 1**—direct emissions from sources owned or controlled by VAGO such as petrol consumed in a VAGO-owned vehicle.

**Scope 2**—direct emissions resulting from generation of electricity purchased by VAGO.

**Scope 3**—indirect emissions from sources not owned or directly controlled by VAGO but relating to our activities, such as employee travel.

VAGO formed the EMC in 2008 to improve, monitor and report the environmental performance of the office. Under the revised governance structure the EMC has moved from a body which is implementing change to an advisory role. It will also be an office champion of sustainable performance, embedding changes into the culture of the organisation.

This year, EMC has developed and implemented programs to embed sustainable performance behaviours into the organisation as part of VAGO's underlying culture, through events such as ‘No Paper Cup July’ where the challenge was to take your own sustainable cup when buying coffees instead of using the standard disposable paper cup.

### Environmental performance

Below is information on our environmental impacts and performance against our targets. This reporting has been audited and the audit certificate is on page 64.

### Energy

Target—by 2013, achieve a:

- 4 star green rating with the Green Building Council of Australia
- 5 star National Built Environment Rating System for tenancy use.

VAGO consumes energy through the use of office equipment and facilities. VAGO is unable to collect data on the energy our staff members consume at premises of audited agencies.

VAGO switched to 100 per cent green power from 1 July 2010, which has reduced our greenhouse gas emissions. VAGO is also reducing overall energy use through smarter use of technology—such as the installation of more energy efficient servers—and staff education about energy conservation. The overall energy consumption has gone down in 2011–12, largely due to the more energy efficient servers. As such, making further significant reductions in the future will be challenging due to the one off nature of this reduction.

[Figure 30] Energy consumption for 2010–11 and 2011–12

Energy consumption <sup>(a)</sup>		2011–12	2010–11
Quantity (MJ)	Non Green	0	0
	Green	842 767	951 004
	Total	842 767	951 004
Measure (MJ)	per FTE	5 183	5 976
	per m <sup>2</sup>	299.9	338.4
Greenhouse gas emissions (tonnes CO <sub>2</sub> -e) Scope 2	Total	283.3	319.6
	Offset	283.3	319.6
	Total after Offset	0	0
Greenhouse gas emissions (tonnes CO <sub>2</sub> -e) Scope 3 – Distribution line loss	Total	35.1	39.6

(a) Includes electricity at VAGO premises (Levels 23 and 24, 35 Collins Street). 100 per cent green power purchased in 2011–12. Added new measure for line loss for purchased electricity for distribution from power stations to VAGO premises, comparative for previous year updated to include this measure.

## Waste

Target—by 2013:

- reduce generation of all waste to 71kg/FTE/year
- increase office recycling to 80 per cent
- reduce contamination of waste and recyclables to 10 per cent.

VAGO commissioned a waste audit of the office, which was completed in April 2012. The data collected during this audit allows us to benchmark ourselves against total waste production, contamination rates and recycling rates and allows us to compare this data against previous year data and to better plan for the future.

[Figure 31] Waste production for 2010–11 and 2011–12

Waste <sup>(a)</sup>		2011–12	2010–11
Quantity (kg)	Waste (landfill)	2 065.0	3 128.5
	Recycling	7 000.0	11 770.5
	Compost	1 052.5	511.5
Measure (kg/FTE)	Waste (landfill)	12.7	20
	Recycling	43.1	74
	Compost	6.5	3
Greenhouse gas emissions (GHG) (tonnes CO2-e)	Waste to landfill (Scope 3)	2.8	5.2

(a) Includes waste at VAGO premises (ten day audit of waste production). Recycling rate of 79.6 per cent.

## Paper

Target—by 2013, establish electronic systems for all internal and external briefings and formal communications.

VAGO is becoming more efficient in its paper use. Although the number of reams used at VAGO has increased by 3.3 per cent in 2011–12, the amount of paper used for printing Parliamentary reports and other publications has decreased 25.2 per cent, resulting in an overall reduction in paper use of 8.4 per cent. In 2012–13, VAGO will be implementing an electronic system to issue our provisional and proposed reports, which will result in a further reduction in our paper use.

VAGO considers all paper used, including Parliamentary report production, before making its final purchasing decisions. As our major Parliamentary output, VAGO makes printed copies of all tabled reports available to every MP.

As part of our report printing, the paper we use has environmental credentials.

During the year VAGO implemented the publishing of VAGO's reports on our website in HTML format as well as PDF which should encourage greater use of the electronic version. As in previous years, all our reports are available electronically.

In 2011–12, we used 80 per cent recycled paper as our standard office stock.

[Figure 32] Paper use in 2010–11 and 2011–12

Paper purchased <sup>(a)</sup>		2011–12	2010–11
Quantity (reams A4 equivalent)	Copy paper	2 137	2 068
	Publications	1 073	1 435
Measure (reams A4 per FTE)	Copy paper	13.1	13.0
	Publications	6.6	9.0
Greenhouse gas emissions (tonnes CO2-e) Scope 3	Total (copy paper and publications)	11.5	16.5

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



### Water

Target—by 2013:

- achieve a 4 star green rating with the Green Building Council of Australia
- liaise with building management with a goal of achieving a 5 star National Built Environment Rating System for building use.

VAGO achieved a 4 star green rating with the Green Building Council of Australia for the fit out of our current premises.

[Figure 33] Water consumption for 2010–11 and 2011–12

Water <sup>(a)</sup>	2011–12	2010–11
Quantity (kL)	643	878
Measure (kL/FTE)	4.0	5.5
Measure (kL/m <sup>2</sup> )	0.2	0.3
Greenhouse gas emissions (tonnes CO <sub>2</sub> -e) Scope 3	1.5	2.1

(a) Includes water use at VAGO premises (2010–11 water was measured for part year and extrapolated).

### Transport

Target—by 2013:

- achieve a 50 per cent offset of all transport by VAGO staff
- reduce high intensity travel options which produce elevated amounts of carbon emissions by offering staff green travel opportunities.

Our fleet comprises eight executive vehicles. We also use rental cars to travel to premises of audited agencies mainly for 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 rental car policy has changed from a six-cylinder to a four-cylinder vehicle. The vehicle policy also encourages the use of sustainable travel options and to consider the need for travel where other options, like phone conferences, are available.

[Figure 34] Fuel use, flights and taxi trips taken by VAGO staff

Fuel use <sup>(a)</sup>		2011–12	2010–11	
Quantity (MJ)	VAGO vehicles	280 655	348 368	
	Hire vehicles	397 599	462 803	
Quantity (business related km travelled)	VAGO vehicles	68 913	77 247	
	Hire vehicles	137 727	150 991	
Measure (GHG tonnes CO <sub>2</sub> -e/1000kms)	VAGO vehicles	0.294	0.325	
	Hire vehicles	0.208	0.221	
GHG (tonnes CO <sub>2</sub> -e)	VAGO vehicles	Scope 1	18.8	23.3
		Scope 3	1.5	1.8
	Hire vehicles	Scope 3	28.7	33.4

**[Figure 34] Fuel use, flights and taxi trips taken by VAGO staff – continued**

Flights (Short/Medium/Long haul) <sup>(b)</sup>		2011–12	2010–11
Quantity	Short	10	24
	Medium	44	40
	Long	1	1
Quantity (kms travelled)	Short	6 579	21 852
	Medium	111 474	96 211
	Long	14 838	23 699
Greenhouse gas emission (tonnes CO <sub>2</sub> -e) Scope 3	Short	2.4	8.5
	Medium	24.3	21.3
	Long	3.7	6.1
Taxi trips <sup>(c)</sup>		2011–12	2010–11
Quantity (trips)		826	802
Greenhouse gas emission (tonnes CO <sub>2</sub> -e) Scope 3		4.5	4.5

(a) Includes both executive fleet vehicles (All VAGO vehicles (eight) are in the six-cylinder sedans and wagons class) and hire vehicles.

(b) Includes all flights (return flights counted as 1 flight) invoiced to and paid for by VAGO. Comparative restated due to improved calculation.

(c) Includes all taxi trips invoiced to and paid for by VAGO. Comparative restated due to improved calculation.

## Greenhouse gas emissions

Target—to lead by example by reducing greenhouse gas emissions from travel and other business activities.

The emissions listed in the previous tables measure our combined use of energy, waste, paper, water, fuel, flights, and taxi trips. Figure 35 shows our use of fridges. As shown in the second part of Figure 35, these measures allow us to calculate VAGO's footprint.

**[Figure 35] Greenhouse gas emissions for 2010–11 and 2011–12**

Fridges <sup>(a)</sup>		2011–12	2010–11
Number of fridges		6	6
Greenhouse gas emission (tonnes CO <sub>2</sub> -e) Scope 1		0.03	0.03
Total greenhouse gas emissions (of above measures) <sup>(b)</sup>		2011–12	2010–11
Quantity (tonnes CO <sub>2</sub> -e)	Scope 1	18.8	23.4
	Scope 2	0	0
	Scope 3	116	139.0
	Total	134.8	162.4
Quantity (tonnes CO <sub>2</sub> -e/FTE)	Total	0.8	1.0

(a) Number of fridges at VAGO premises (GHG measured as global warming potential of hydrofluorocarbons in the fridges). The comparative figure has been updated due to change in calculation from previous year.

(b) 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, 2011–12: 162.6 (2010–11: 159.1). The FTE figure of 159.1 used in the 2010–11 disclosures excludes casual staff. The comparative figures have been updated to include a new measure and to adjust for a change in calculation from the previous year.

## Procurement

Target—by 2013, integrate environmental specifications into all contracts, tenders and purchasing templates to reduce impacts through purchasing decisions.

As servers have required replacement, VAGO has been procuring more efficient servers which have had the impact of reducing VAGO's energy consumption (by 11.4 per cent from 2010–11).

VAGO's main area of procurement is audit service providers and contractors (32 per cent of total expenses from transactions). VAGO spent 52 per cent of total expenses from transactions on employee expenses; the remaining 16 per cent is spent mainly on goods and services.

VAGO is examining its procurement process to identify areas in which it can modify contracts, tenders and purchasing templates to incorporate environmental specifications.

## Audit certificate

### INDEPENDENT VERIFICATION STATEMENT Greenhouse Gas Inventory: 2011-12



To the Auditor-General and the Executive 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 2011 to 30 June 2012, as presented within VAGO's 2011-2012 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 'Office-based environmental impacts' section of 'Managing VAGO'. As factors contributing to the inventory, total use metrics for energy, paper use, organics and recyclable materials to processors, waste to landfill, potable water consumption and total air travel (in kilometres) associated with VAGO's operations were also within the verification scope. The verification engagement was undertaken between June and July 2012 against the requirements of the GHG Protocol and the ISO 14064-3 International standard series for the quantification, validation and verification of greenhouse gas emissions. The verification process involved:

- A review of the GHG inventory contained within the Annual Report.
- Sighting of calculation methodologies and re-performing calculations to substantiate the GHG inventory claims made within the Annual Report.
- An interview with the key person responsible for calculating the GHG inventory in order to understand data sources, reliability of data, completeness of data and the basis of key assumptions used in reporting.
- Evaluation of supporting documentary evidence.

#### 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 preparing 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 verification engagement.

#### Our opinion

Based on the scope of the verification process and procedures conducted, the following represents our 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 GHG inventory is a fair and accurate representation of the organisation's GHG emissions during the period.
- Any errors identified during the verification were rectified prior to the GHG inventory being published.

On behalf of the verification team  
10 August 2012  
Melbourne, Australia

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



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Total output cost for output group 1 was \$13.7 million (target \$14.1).



P 68

Total output cost for output group 2 was \$22.8 million (target \$20.8).



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Net result for 2011–12 was a surplus of \$578 173.

# Financial management

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

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## Financial performance

Our net financial result for the year was a surplus of \$578 173 (compared with a surplus of \$515 847 in 2010–11).

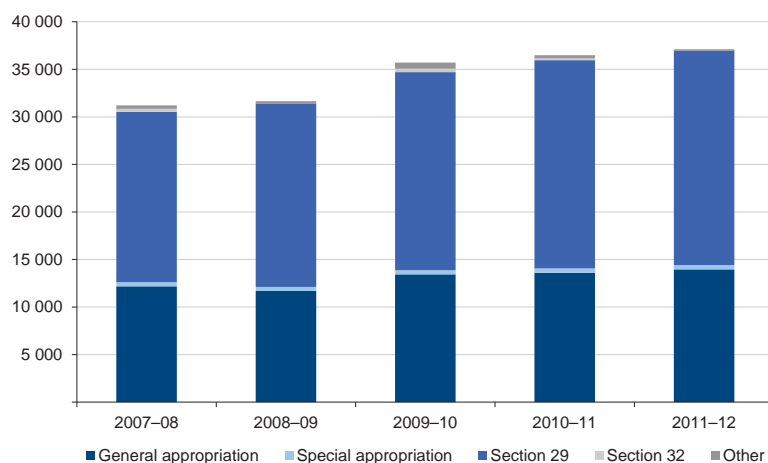
Figure 36 shows the movement in both actual revenues and expenses.

[Figure 36] Revenues and expenses, 2011–12 and previous four years

	2011–12 (\$'000)	2010–11 (\$'000)	2009–10 (\$'000)	2008–09 (\$'000)	2007–08 (\$'000)
<b>Revenue</b>					
General appropriation	13 959	13 612	13 433	11 696	12 182
Section 32 carry forward	–	200	360	–	338
Section 29	22 547	21 899	20 829	19 317	17 910
Special appropriation	456	447	445	410	431
Other	158	332	643	222	353
<b>Total revenue</b>	<b>37 120</b>	<b>36 490</b>	<b>35 710</b>	<b>31 645</b>	<b>31 214</b>
<b>Total expenses</b>	<b>36 542</b>	<b>35 974</b>	<b>34 928</b>	<b>33 186</b>	<b>33 296</b>
<b>Surplus/(deficit)</b>	<b>578</b>	<b>516</b>	<b>782</b>	<b>(1 541)</b>	<b>(2 082)</b>

### Revenue

[Figure 37] Source of VAGO funding over the past five years



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

Revenue increased in 2011–12 mainly due to general price increases. This was offset by lower revenue recovery from staff secondment to other offices, and a carry-over of appropriation of \$344 000 into 2012–13 following a deferral of equivalent project expenses.

## Expenses

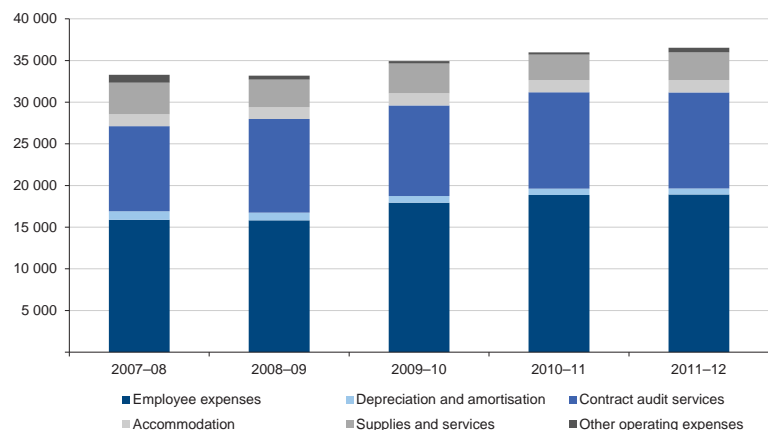
VAGO spends most of its budget on employees, contract audit services, accommodation, and supplies and services.

[Figure 38] Expenses from ordinary activities for 2011–12 and previous four years

Item	2011–12 (\$'000)	2010–11 (\$'000)	2009–10 (\$'000)	2008–09 (\$'000)	2007–08 (\$'000)
<b>Expenses</b>					
Depreciation and amortisation	732	764	801	928	1 028
Employee expenses	18 917	18 862	17 946	15 829	15 892
Contract audits services	11 531	11 558	10 859	11 220	10 213
Rental expenses – accommodation	1 477	1 475	1 454	1 437	1 425
Supplies and services	3 317	3 060	3 580	3 297	3 788
Other operating expenses	568	255	288	475	950
<b>Total expenses</b>	<b>36 542</b>	<b>35 974</b>	<b>34 928</b>	<b>33 186</b>	<b>33 296</b>

Expenditure in 2011–12 increased mainly as a result of general price increases, higher use of contract audit service providers for attest audits, and higher revaluation of long service leave (following a reduction in the discount rate) across staff delivering both attest and performance audits. This was offset by lower costs for contract audit providers and employees in delivering performance audits.

[Figure 39] Expenses, 2011–12 and four previous years



## Output results

The financial results for our two output groups were:

- Output 1: Parliamentary reports and services**—output costs were lower by \$1.0 million in 2011–12 due to lower contract costs and lower employee costs. This was offset by higher revaluation of long service leave provisions.
- Output 2: audit reports on financial statements**—output costs were higher by \$1.6 million in 2011–12 due to higher contract costs, higher temporary employee costs (due to greater use of computer audit specialists) and higher revaluation of long service leave provisions.



**[Figure 40] Total revenues and expenses attributed to outputs for 2011–12**

Output group	2011–12			2010–11		
	Revenue (\$'000)	Expenses (\$'000)	Net result (\$'000)	Revenue (\$'000)	Expenses (\$'000)	Net result (\$'000)
1. Parliamentary reports and services	14 293	13 719	574	14 267	14 728	(461)
2. Audit reports on financial statements	22 827	22 823	4	22 223	21 246	977
<b>Total</b>	<b>37 120</b>	<b>36 542</b>	<b>578</b>	<b>36 490</b>	<b>35 974</b>	<b>516</b>

## Financial position

Our financial position at 30 June 2012 remained strong, with total assets of \$13.4 million, total liabilities of \$6.8 million and net assets of \$6.7 million.

**[Figure 41] Asset and liability movement over five years**

Item	2011–12 (\$'000)	2010–11 (\$'000)	2009–10 (\$'000)	2008–09 (\$'000)	2007–08 (\$'000)
Financial assets	10 755	9 734	8 361	7 933	7 980
Non-financial assets	2 690	2 978	2 991	2 924	3 312
<b>Total assets</b>	<b>13 445</b>	<b>12 712</b>	<b>11 352</b>	<b>10 857</b>	<b>11 292</b>
<b>Total liabilities</b>	<b>6 787</b>	<b>6 631</b>	<b>5 787</b>	<b>6 069</b>	<b>4 596</b>
<b>Net assets</b>	<b>6 658</b>	<b>6 081</b>	<b>5 565</b>	<b>4 788</b>	<b>6 336</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 report. The annual report of the Victorian Auditor-General's Office complies with this requirement.

### Consultancies

In 2011–12, we engaged three consultancies where the total fees payable to the consultants were greater than \$10 000 but less than \$100 000. Details of these consultancies are outlined in the table opposite. We engaged 12 consultancies where the total fees payable to the consultants were less than \$10 000, with a total expenditure of \$56 355 (excluding GST). There were no payments to consultants in excess of \$100 000.

[Figure 42] Details of individual consultancies

Consultant	Purpose of consultancy	Start date	End date	Total approved project fee (excluding GST)	Expenditure 2011–12 (excluding GST)	Future expenditure (excluding GST)
Audit Office of New South Wales	Australasian Council of Auditors-General macrobenchmarking survey	15 August 2011	28 October 2011	\$10 380	\$10 380	–
Phoenix Consulting	Post-implementation review of human resources information system	18 June 2012	7 August 2012	\$22 273	\$22 273	–
Sinclair Knight Merz Pty Ltd	Review of performance development plans and business plans	17 January 2012	29 February 2012	\$11 700	\$11 700	–

## Performance audit contractors

In 2011–12, we paid \$0.8 million (\$1.4 million in 2010–11) to 19 contractors for services related to our performance audits.

[Figure 43] Payments to performance audit contractors, 2011–12

Performance audit contractor	2011–12 (\$'000)	2010–11 (\$'000)
Auctionomics Inc	0	166
Collison Fogarty Laws P/L	64	11
E W Russell & Associates Pty Ltd	137	18
Eastern Health	45	0
Ernst & Young	218	170
Gardner Group Pty Ltd	72	13
Gartner Australasia Pty Ltd	29	40
J H Resources Pty Ltd	68	0
O'Connor Marsden & Associates Pty Ltd	0	49
Paul Edney	37	18
P G Rorke	32	0
Pivotal Point Consulting Services	0	95
Roberts Evaluation Pty Ltd	0	90
Stuart McLennan	6	30
The Allen Consulting Group	0	122
The Kiwipower Group	55	0
University of Melbourne	0	148
Other – 8 service providers (23 in 2010–11)	11	394
<b>Total</b>	<b>774</b>	<b>1 364</b>

## Attest audit service providers

In 2011–12, we paid \$10.8 million (\$10.2 million in 2010–11) to 26 audit firms that provided services related to our attest statement audits.

**[Figure 44] Payments to attest audit service providers, 2011–12**

Attest audit service provider	2011–12 (\$'000)	2010–11 (\$'000)
Accounting and Auditing Solutions	39	33
Coffey Hunt & Co	522	513
Crowe Horwath Melbourne (previously WHK Horwath)	1 143	1 096
Davidsons	10	45
Deloitte Touche Tohmatsu	697	722
DFK Colins	163	369
Dixons & Associates Pty Ltd	113	32
Ernst & Young	1 230	1 035
HLB Mann Judd (Vic) Pty Ltd	1 983	1 905
Johnsons MME	269	243
KPMG	305	342
LD Assurance	267	137
Mclean Delmo Hall Chadwick	288	307
Mulqueen Griffin Rogers P/L	126	94
Pannell Kerr Forster	16	31
Richmond Sinnott & Delahunty	803	709
RMA Specialists	60	85
RSM Bird Cameron	1 244	1 129
UHY Haines Norton (Vic) Pty Ltd	595	478
University of Melbourne	84	75
WHK Audit (Vic) (previously WHK Armitage Downie Pty Ltd)	554	495
WHK Audit & Risk Assessment (previously KPMG Albury)	162	254
Other – 4 service providers (4 in 2010–11)	84	65
<b>Total</b>	<b>10 757</b>	<b>10 194</b>

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# 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 2012 and financial position of VAGO at 30 June 2012.

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 8 August 2012.



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

Melbourne  
8 August 2012



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

Melbourne  
8 August 2012

## Independent auditor's report



### Independent Auditor's Report to the Auditor-General

#### Report on the Financial Report

We have audited the accompanying financial report of the Victorian Auditor-General's Office, which comprises the balance sheet as at 30 June 2012, the comprehensive operating statement, statement of changes in equity and cash flow statement for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the Accountable Officer's and Chief Finance and Accounting Officer's declaration.

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

The Auditor-General is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, and the financial reporting requirements of the *Financial Management Act 1994*, and for such internal control as the Auditor-General determines is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

In accordance with the requirements of the *Audit Act 1994*, 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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 Auditor-General, as well as evaluating the overall presentation of the financial report.

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

#### Independence

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

#### Opinion

In our opinion the financial report presents fairly, in all material respects, the financial position of the Victorian Auditor-General's Office as at 30 June 2012 and of its financial performance for the year then ended in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, and the financial reporting requirements of the *Financial Management Act 1994*.

Lawler Draper Dillon

Steven Bradby

Partner

Melbourne, 8 August 2012

Sydney  
Melbourne  
Perth  
Brisbane  
Gold Coast  
Townsville

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## Comprehensive operating statement for the financial year ended 30 June 2012

	Note	2011–12 \$	2010–11 \$
<b>Income from transactions</b>			
Output appropriations	2, 4(a)	36,506,529	35,710,913
Special appropriations	2, 4(b)	455,655	446,640
Sale of goods and services	4(c)	125,387	302,125
Fair value of services received free of charge	4(d)	32,600	30,600
<b>Total income from transactions</b>		<b>37,120,171</b>	<b>36,490,278</b>
<b>Expenses from transactions</b>			
Employee expenses	5(a)	18,916,849	18,861,846
Depreciation and amortisation	5(b)	732,375	764,458
Interest expense	5(c)	18,198	30,616
Capital asset charge		202,000	197,000
Fair value of services provided free of charge		112,853	67,377
Contract audit services		11,530,930	11,558,433
Rental expenses – accommodation		1,476,654	1,474,847
Recruitment and training		862,859	709,240
Other operating expenses	5(d)	2,454,351	2,351,176
<b>Total expenses from transactions</b>		<b>36,307,069</b>	<b>36,014,993</b>
<b>Net result from transactions (net operating balance)</b>		<b>813,102</b>	<b>475,285</b>
<b>Other economic flows included in net result</b>			
Net gain / (loss) on non-financial assets (i)	6(a)	9,173	3,984
Other gains / (losses) from other economic flows	6(b)	(244,102)	36,578
<b>Total other economic flows included in net result</b>		<b>(234,929)</b>	<b>40,562</b>
<b>Net result</b>		<b>578,173</b>	<b>515,847</b>
<b>Comprehensive result</b>		<b>578,173</b>	<b>515,847</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 2012

	Note	2011–12 \$	2010–11 \$
<b>Assets</b>			
<b>Financial assets</b>			
Cash	18(a)	900	900
Receivables	7	10,754,061	9,733,191
<b>Total financial assets</b>		<b>10,754,961</b>	<b>9,734,091</b>
<b>Non-financial assets</b>			
Property, plant and equipment	8	1,845,997	1,990,518
Intangible assets	9	372,602	329,471
Other non-financial assets	10	471,979	657,638
<b>Total non-financial assets</b>		<b>2,690,578</b>	<b>2,977,627</b>
<b>Total assets</b>		<b>13,445,539</b>	<b>12,711,718</b>
<b>Liabilities</b>			
Payables	11	1,330,003	1,550,001
Borrowings	12	236,895	241,017
Provisions	13	5,220,274	4,839,870
<b>Total liabilities</b>		<b>6,787,172</b>	<b>6,630,888</b>
<b>Net assets</b>		<b>6,658,367</b>	<b>6,080,830</b>
<b>Equity</b>			
Accumulated surplus		6,362,072	5,783,899
Contributed capital		296,295	296,931
<b>Net worth</b>		<b>6,658,367</b>	<b>6,080,830</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 2012

	Accumulated surplus \$	Contributed capital \$	TOTAL \$
<b>Balance at 1 July 2010</b>	5,268,052	297,026	5,565,078
Net result for the year	515,847	-	515,847
Withdrawal of equity	-	(95)	(95)
Balance at 30 June 2011	5,783,899	296,931	6,080,830
Net result for the year	<b>578,173</b>	-	<b>578,173</b>
Withdrawal of equity (i)	-	<b>(636)</b>	<b>(636)</b>
<b>Balance at 30 June 2012</b>	<b>6,362,072</b>	<b>296,295</b>	<b>6,658,367</b>

(i) The withdrawal of equity relates to the net book value of non-financial assets disposed of during the financial year, other than motor vehicles.

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 2012

	Note	2011–12 \$	2010–11 \$
<b>Cash flows from operating activities</b>			
<i>Receipts</i>			
Receipts from Government		38,220,216	36,791,234
Receipts from other entities		125,387	302,125
<b>Total receipts</b>		<b>38,345,603</b>	<b>37,093,359</b>
<i>Payments</i>			
Payments to suppliers and employees		(37,077,716)	(35,853,049)
Goods and Services Tax paid to the ATO (i)		(435,219)	(404,625)
Capital asset charge payments		(202,000)	(197,000)
Interest and other costs of finance paid		(4,098)	(17,234)
<b>Total payments</b>		<b>(37,719,033)</b>	<b>(36,471,908)</b>
<b>Net cash flows from / (used in) operating activities</b>	19(b)	<b>626,570</b>	<b>621,451</b>
<b>Cash flows from investing activities</b>			
Purchases of non-financial assets		(777,813)	(623,529)
Sales of non-financial assets		155,365	62,591
<b>Net cash flows from / (used in) investing activities</b>		<b>(622,448)</b>	<b>(560,938)</b>
<b>Cash flows from financing activities</b>			
Proceeds from finance leases		211,250	77,220
Repayment of finance leases		(215,372)	(137,733)
<b>Net cash flows from / (used in) financing activities</b>		<b>(4,122)</b>	<b>(60,513)</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 2012

### Note 1. Summary of significant accounting policies

These 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.

#### (a) Statement of compliance

These general purpose financial statements have been prepared in accordance with the *Financial Management Act 1994* (FMA) 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.

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.

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.

These annual financial statements were authorised for issue by DDR Pearson (Auditor-General) and C Yip (Chief Finance and Accounting Officer) on 8 August 2012.

#### (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.

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.

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 and assumptions 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.

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

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 2012 and the comparative information presented for the year ended 30 June 2011.

## Note 1. Summary of significant accounting policies

### (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 attest 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 and Amendments to Australian System of Government Finance Statistics, 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;
- gains and losses arising from revaluation of long service liability; and
- fair value changes of financial instruments.

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



## Note 1. Summary of significant accounting policies (continued)

### **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 (non-current being those assets or liabilities 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 economic flows - other movements in equity' related to 'Transactions with owner in its capacity as owner'.

### **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 FMA 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.

## Note 1. Summary of significant accounting policies (continued)

### *Income from the 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; and
- it is probable that the economic benefits associated with the transaction will flow to VAGO.

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***

Refer to the section in Note 1(l) regarding employee benefits.

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

### ***Superannuation***

The amount recognised in the comprehensive operating statement is the employer contributions for members of both defined benefit and defined contribution superannuation plans that are paid or payable to these plans during the reporting period.

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.

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.

## Note 1. Summary of significant accounting policies (continued)

### **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 disposal of non-financial assets is recognised at the date of disposal 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 FMA. 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-financial 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.

## Note 1. Summary of significant accounting policies (continued)

### (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.

#### *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'

### (k) Non-financial assets

#### **Property, plant and equipment**

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

#### *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**

Purchased 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 AASB 138 *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.

## Note 1. Summary of significant accounting policies (continued)

### (I) 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.

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.

## Note 1. Summary of significant accounting policies (continued)

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 2012 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.



## Note 1. Summary of significant accounting policies (continued)

### (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 for future expenditure include operating and capital commitments arising from contracts. These are disclosed by way of a note (refer to Note 16) 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 (refer to Note 17) 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 2012 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 2012, all new accounting standards and interpretations that had been issued but classified as not mandatory for the financial year ended 30 June 2012 had been considered, and whilst 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 report on the state's finances;
- reports of observations from the previous June and December attest 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:

- independent review of the Government's estimated financial statements and provision of a report for inclusion in its annual budget papers presented to Parliament;
- audit opinions (also referred to as audit reports) on the financial statements of public sector agencies and on the government's annual financial report;
- audit opinions on non-financial performance indicators prepared by local government, certain water bodies, and technical and further education institutes; and
- letters to management of 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 attest audits. The costs of such are expensed as a controlled item. Audit fee income arising from attest audits, whether undertaken directly or contracted out, is required under the FMA 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 2012**

	Parliamentary reports and services		Audit reports on financial statements		Total	
	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11
	\$	\$	\$	\$	\$	\$
<b>Income from transactions</b>						
Output appropriations	13,959,000	13,812,000	22,547,529	21,898,913	36,506,529	35,710,913
Special appropriations	227,417	238,970	228,238	207,670	455,655	446,640
Sale of goods and services	89,911	199,823	35,476	102,302	125,387	302,125
Fair value of services received free of charge	16,271	15,789	16,329	14,811	32,600	30,600
<b>Total income from transactions</b>	<b>14,292,599</b>	<b>14,266,582</b>	<b>22,827,572</b>	<b>22,223,696</b>	<b>37,120,171</b>	<b>36,490,278</b>
<b>Expenses from transactions</b>						
Employee expenses	9,824,078	10,482,833	9,092,771	8,379,013	18,916,849	18,861,846
Depreciation and amortisation	365,528	316,652	366,847	447,806	732,375	764,458
Interest expense	11,134	17,514	7,064	13,102	18,198	30,616
Capital asset charge	100,818	101,652	101,182	95,348	202,000	197,000
Fair value of services provided free of charge	64,724	67,377	48,129	-	112,853	67,377
Contract audit services	773,929	1,364,669	10,757,001	10,193,764	11,530,930	11,558,433
Rental expenses – accommodation	736,998	761,021	739,656	713,826	1,476,654	1,474,847
Recruitment and training	393,392	327,558	469,467	381,682	862,859	709,240
Other operating expenses	1,327,395	1,312,006	1,126,956	1,039,170	2,454,351	2,351,176
<b>Total expenses from transactions</b>	<b>13,597,996</b>	<b>14,751,282</b>	<b>22,709,073</b>	<b>21,263,711</b>	<b>36,307,069</b>	<b>36,014,993</b>
<b>Net result from transactions (net operating balance)</b>	<b>694,603</b>	<b>(484,700)</b>	<b>118,499</b>	<b>959,985</b>	<b>813,102</b>	<b>475,285</b>
<b>Other economic flows included in net result</b>						
Net gain / (loss) on non-financial assets	4,578	2,056	4,595	1,928	9,173	3,984
Other gains / (losses) from other economic flows	(125,802)	21,463	(118,300)	15,115	(244,102)	36,578
<b>Total other economic flows included in net result</b>	<b>(121,224)</b>	<b>23,519</b>	<b>(113,705)</b>	<b>17,043</b>	<b>(234,929)</b>	<b>40,562</b>
<b>Net result</b>	<b>573,379</b>	<b>(461,181)</b>	<b>4,794</b>	<b>977,028</b>	<b>578,173</b>	<b>515,847</b>
<b>Comprehensive result</b>	<b>573,379</b>	<b>(461,181)</b>	<b>4,794</b>	<b>977,028</b>	<b>578,173</b>	<b>515,847</b>

**Controlled assets and liabilities as at 30 June 2012**

	Parliamentary reports and services		Audit reports on financial statements		Total	
	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11
	\$	\$	\$	\$	\$	\$
<b>Assets</b>						
Financial assets	4,037,811	3,985,091	6,717,150	5,749,000	10,754,961	9,734,091
Non-financial assets	1,010,143	1,219,027	1,680,435	1,758,600	2,690,578	2,977,627
<b>Total assets</b>	<b>5,047,954</b>	<b>5,204,118</b>	<b>8,397,585</b>	<b>7,507,600</b>	<b>13,445,539</b>	<b>12,711,718</b>
<b>Liabilities</b>						
<b>Total liabilities</b>	<b>2,548,156</b>	<b>2,714,654</b>	<b>4,239,016</b>	<b>3,916,234</b>	<b>6,787,172</b>	<b>6,630,888</b>
<b>Net assets</b>	<b>2,499,798</b>	<b>2,489,464</b>	<b>4,158,569</b>	<b>3,591,366</b>	<b>6,658,367</b>	<b>6,080,830</b>

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

In addition to the specific operations of VAGO which are included in the financial statements (comprehensive operating statement, balance sheet, statement of changes in equity and cash flow statement), VAGO administers other resources on behalf of the state such as income from audit fees raised from performing attest audits. The transactions relating to these activities are reported as administered items (refer to Note 1 (d) and (i)) in this note.

	2011–12	2010–11
	\$	\$
<b>Administered income from transactions</b>		
Sales of services	22,547,529	21,898,913
Miscellaneous income	101,398	34,379
<b>Total administered income from transactions</b>	<u>22,648,927</u>	<u>21,933,292</u>
<b>Administered expenses from transactions</b>		
Payments made on behalf of the state	9,600	300
Payments into the Consolidated Fund	22,642,191	21,932,897
<b>Total administered expenses from transactions</b>	<u>22,651,791</u>	<u>21,933,197</u>
<b>Total administered net result from transactions (net operating balance)</b>	<u>(2,864)</u>	<u>95</u>
<b>Administered other economic flows included in administered net result</b>		
Net gain / (loss) on non-financial assets	2,864	(95)
<b>Total administered other economic flows</b>	<u>2,864</u>	<u>(95)</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)	2,195,303	2,655,821
<b>Total administered financial assets</b>	<u>2,195,303</u>	<u>2,655,821</u>
<b>Administered non-financial assets</b>		
Work in progress	2,952,344	2,624,129
<b>Total administered non-financial assets</b>	<u>2,952,344</u>	<u>2,624,129</u>
<b>Total administered assets</b>	<u>5,147,647</u>	<u>5,279,950</u>
<b>Administered liabilities</b>		
Amounts owing to the state	5,147,647	5,279,950
<b>Total administered liabilities</b>	<u>5,147,647</u>	<u>5,279,950</u>
<b>Total administered net assets</b>	<u>-</u>	<u>-</u>
<i>(i) Receivables comprise debtors falling due as follows:</i>		
Current	2,178,652	2,568,035
Overdue between 30 to 60 days	16,651	87,786
Overdue beyond 60 days	-	-
	<u>2,195,303</u>	<u>2,655,821</u>

**Note 4. Income from transactions**

	2011–12	2010–11
	\$	\$
<b>(a) Output appropriations (i)</b>		
Annual appropriation for the provision of outputs	13,959,000	13,812,000
Appropriation under s29 FMA 1994	22,547,529	21,898,913
<b>Total output appropriations</b>	<b>36,506,529</b>	<b>35,710,913</b>
<b>(b) Special appropriations (i)</b>		
Appropriation under s94A(6) of the <i>Constitution Act 1975</i>	455,655	446,640
<b>Total special appropriations</b>	<b>455,655</b>	<b>446,640</b>
<b>(c) Sale of goods and services</b>		
Sales of goods (ii)	47,168	61,977
Rendering of services (iii)	78,219	240,148
<b>Total sale of goods and services</b>	<b>125,387</b>	<b>302,125</b>
<b>(d) Fair value of services received free of charge</b>		
Services (iv)	32,600	30,600
<b>Total fair value of services received free of charge</b>	<b>32,600</b>	<b>30,600</b>

(i) Refer to 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 to Note 23.

**Note 5. Expenses from transactions**

	2011–12	2010–11
	\$	\$
<b>(a) Employee expenses</b>		
Post employment benefits:		
Defined contribution superannuation expense	1,155,566	1,164,598
Defined benefit superannuation expense	227,600	230,246
	<u>1,383,166</u>	<u>1,394,844</u>
Termination benefits	284,547	219,840
Salaries, wages and long service leave	17,249,136	17,247,162
<b>Total employee expenses</b>	<u>18,916,849</u>	<u>18,861,846</u>
<b>(b) Depreciation and amortisation</b>		
Depreciation of non-current assets:		
Furniture and fittings	2,008	2,008
Computer software	24,610	19,561
Computer hardware	202,446	275,770
Office equipment	17,855	21,002
Mobile phones	8,930	16,498
<b>Total depreciation of non-current assets</b>	<u>255,849</u>	<u>334,839</u>
Amortisation of non-current assets:		
Leasehold improvements	192,790	179,423
Intangible produced assets	215,680	171,910
Motor vehicles – leased	68,056	78,286
<b>Total amortisation of non-current assets</b>	<u>476,526</u>	<u>429,619</u>
<b>Total depreciation and amortisation</b>	<u>732,375</u>	<u>764,458</u>
<b>(c) Interest expense</b>		
Interest on finance leases	4,098	17,234
Interest on make-good provision	14,100	13,382
<b>Total interest expense</b>	<u>18,198</u>	<u>30,616</u>
<b>(d) Other operating expenses</b>		
Information technology	459,041	453,784
Information management	590,336	532,017
Consultants	100,708	205,509
Legal expenses	16,977	6,603
Auditors' remuneration	32,600	30,600
Other office expenses	1,254,689	1,122,663
<b>Total other operating expenses</b>	<u>2,454,351</u>	<u>2,351,176</u>

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

	2011–12	2010–11
	\$	\$
<b>(a) Net gain / (loss) on non-financial assets</b>		
Net gain on disposal of property, plant and equipment	9,173	3,984
<b>Total net gain / (loss) on non-financial assets</b>	<b>9,173</b>	<b>3,984</b>
<b>(b) Other gains / (losses) from other economic flows</b>		
Net gain / (loss) arising from revaluation of long service liability (i)	(244,102)	36,578
<b>Total other gains / (losses) from other economic flows</b>	<b>(244,102)</b>	<b>36,578</b>

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

**Note 7. Receivables**

	2011–12	2010–11
	\$	\$
<b>Current receivables</b>		
<b>Contractual</b>		
Sale of goods and services (i)	34,231	88
Other receivables	9,541	-
	<b>43,772</b>	<b>88</b>
<b>Statutory</b>		
Amounts due from Victorian Government (ii) (iii)	5,319,222	5,268,120
<b>Total current receivables</b>	<b>5,362,994</b>	<b>5,268,208</b>
<b>Non-current receivables</b>		
<b>Statutory</b>		
Amounts due from Victorian Government (ii) (iii)	5,391,067	4,464,983
<b>Total non-current receivables</b>	<b>5,391,067</b>	<b>4,464,983</b>
<b>Total receivables</b>	<b>10,754,061</b>	<b>9,733,191</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 \$10,710,289 (2010–11: \$9,733,103) of which \$5,319,222 (2010–11: \$5,268,120) 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. The amounts represent funding for all commitments incurred through the appropriations and are drawn from the Consolidated Fund as the commitments fall due.

**(a) Ageing analysis of contractual receivables**

Please refer to Table 18.3 in Note 18 for the ageing analysis of contractual receivables.

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

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

**Note 8. Property, plant and equipment****(a) Cost, accumulated amortisation and depreciation (i)**

	2011–12	2010–11
	\$	\$
<b>Leasehold improvements</b>		
At cost	1,950,164	1,803,048
Less: Accumulated amortisation	(888,715)	(695,925)
<b>Total leasehold improvements</b>	<b>1,061,449</b>	<b>1,107,123</b>
<b>Furniture and fittings</b>		
At cost	117,027	117,027
Less: Accumulated depreciation	(106,022)	(104,014)
<b>Total furniture and fittings</b>	<b>11,005</b>	<b>13,013</b>
<b>Computer software</b>		
At cost	83,927	83,927
Less: Accumulated depreciation	(49,876)	(25,266)
<b>Total computer software</b>	<b>34,051</b>	<b>58,661</b>
<b>Computer hardware</b>		
At cost	2,446,869	2,427,661
Less: Accumulated depreciation	(1,955,480)	(1,893,826)
<b>Total computer hardware</b>	<b>491,389</b>	<b>533,835</b>
<b>Office equipment</b>		
At cost	170,831	170,831
Less: Accumulated depreciation	(156,580)	(138,725)
<b>Total office equipment</b>	<b>14,251</b>	<b>32,106</b>
<b>Mobile phones</b>		
At cost	63,579	63,579
Less: Accumulated depreciation	(63,579)	(54,649)
<b>Total mobile phones</b>	<b>-</b>	<b>8,930</b>
<b>Motor vehicles – leased</b>		
At cost	288,470	356,198
Less: Accumulated amortisation	(54,618)	(119,348)
<b>Total motor vehicles – leased</b>	<b>233,852</b>	<b>236,850</b>
<b>Total property, plant and equipment</b>	<b>1,845,997</b>	<b>1,990,518</b>

- (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 2010	1,241,383	15,021	25,766	476,517	50,234	25,524	296,522	2,130,967
Additions	45,163	-	52,456	333,088	2,874	-	77,220	510,801
Disposals	-	-	-	-	-	(755)	(95,124)	(95,879)
Disposals – Accumulated depreciation / amortisation	-	-	-	-	-	659	36,518	37,177
Depreciation / amortisation expense	(179,423)	(2,008)	(19,561)	(275,770)	(21,002)	(16,498)	(78,286)	(592,548)
Balance at 30 June 2011	1,107,123	13,013	58,661	533,835	32,106	8,930	236,850	1,990,518
Additions	147,116	-	-	160,636	-	-	211,250	519,002
Disposals	-	-	-	(141,428)	-	-	(289,542)	(430,970)
Disposals – Accumulated depreciation / amortisation	-	-	-	140,792	-	-	143,350	284,142
Depreciation / amortisation expense	(192,790)	(2,008)	(24,610)	(202,446)	(17,855)	(8,930)	(68,056)	(516,695)
<b>Balance at 30 June 2012</b>	<b>1,061,449</b>	<b>11,005</b>	<b>34,051</b>	<b>491,389</b>	<b>14,251</b>	<b>-</b>	<b>233,852</b>	<b>1,845,997</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

	2011–12	2010–11
	\$	\$
<b>Intangible assets</b>		
At cost	3,106,598	2,847,787
Less: Accumulated amortisation	<u>(2,733,996)</u>	<u>(2,518,316)</u>
<b>Total intangible assets</b>	<u>372,602</u>	<u>329,471</u>

### (b) Movements in intangible assets

	Computer software	TOTAL
	\$	\$
<b>Carrying amount</b>		
Balance at 1 July 2010	388,653	388,653
Additions	112,728	112,728
Amortisation expense (i)	(171,910)	(171,910)
Balance at 30 June 2011	329,471	329,471
Additions	<b>258,811</b>	<b>258,811</b>
Amortisation expense (i)	<b>(215,680)</b>	<b>(215,680)</b>
<b>Balance at 30 June 2012</b>	<u><b>372,602</b></u>	<u><b>372,602</b></u>

(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

	2011–12	2010–11
	\$	\$
<b>Current other assets</b>		
<b>Prepayments</b>		
Information management	17,300	16,843
Software and hardware maintenance contracts	144,994	150,163
Rental expense – accommodation	123,787	120,885
Other	164,800	369,747
<b>Total current other assets</b>	<u>450,881</u>	<u>657,638</u>
<b>Non-current other assets</b>		
<b>Prepayments</b>		
Software and hardware maintenance contracts	21,098	-
<b>Total non-current other assets</b>	<u>21,098</u>	<u>-</u>
<b>Total other assets</b>	<u>471,979</u>	<u>657,638</u>

**Note 11. Payables**

	2011–12	2010–11
	\$	\$
<b>Current payables</b>		
<b>Contractual</b>		
Supplies and services (i)	997,760	1,226,914
Amounts payable to government and agencies (ii)	49,597	21,830
Other payables	4,318	16,242
	<u>1,051,675</u>	<u>1,264,986</u>
<b>Statutory</b>		
Income tax payable	148,714	154,070
FBT payable	29,070	23,767
GST payable	7,567	14,070
Payroll tax payable	92,977	93,108
<b>Total current payables</b>	<u>1,330,003</u>	<u>1,550,001</u>
<b>Total payables</b>	<u>1,330,003</u>	<u>1,550,001</u>

(i) The average credit period is 30 days.

(ii) Terms and conditions of amounts payable to other government agencies vary according to a particular agreement with that agency.

**(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**

	2011–12	2010–11
	\$	\$
<b>Current borrowings</b>		
Lease liabilities (i) (Note 15(a))	62,888	159,212
<b>Total current borrowings</b>	<u>62,888</u>	<u>159,212</u>
<b>Non-current borrowings</b>		
Lease liabilities (i) (Note 15(a))	174,007	81,805
<b>Total non-current borrowings</b>	<u>174,007</u>	<u>81,805</u>
<b>Total borrowings</b>	<u>236,895</u>	<u>241,017</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**

	2011–12	2010–11
	\$	\$
<b>Current provisions</b>		
Employee benefits: (i) (Note 13(a)) – annual leave:		
– Unconditional and expected to settle within 12 months (ii)	1,074,657	1,073,054
– Unconditional and expected to settle after 12 months (iii)	365,489	368,718
Employee benefits: (i) (Note 13(a)) – long service leave:		
– Unconditional and expected to settle within 12 months (ii)	355,414	357,540
– Unconditional and expected to settle after 12 months (iii)	1,956,116	1,610,073
Employee benefits: (i) (Note 13(a)) – performance incentive entitlements:		
– Unconditional and expected to settle within 12 months (ii)	150,000	145,973
	<u>3,901,676</u>	<u>3,555,358</u>
Lease contracts (iv) (Note 15)	24,655	3,549
<b>Total current provisions</b>	<u>3,926,331</u>	<u>3,558,907</u>
<b>Non-current provisions</b>		
Employee benefits: (i) (Note 13(a)) – long service leave	513,798	541,464
Lease contracts (iv) (Note 13(b) and Note 15)	476,830	481,919
Make-good provision (v) (Note 13(b))	303,315	257,580
<b>Total non-current provisions</b>	<u>1,293,943</u>	<u>1,280,963</u>
<b>Total provisions</b>	<u>5,220,274</u>	<u>4,839,870</u>

**(a) Employee benefits (i)**

	2011–12	2010–11
	\$	\$
<b>Current employee benefits</b>		
Annual leave entitlements	1,440,146	1,441,772
Long service leave entitlements	2,311,530	1,967,613
Performance incentive entitlements	150,000	145,973
	<u>3,901,676</u>	<u>3,555,358</u>
<b>Non-current employee benefits</b>		
Long service leave entitlements	513,798	541,464
<b>Total employee benefits</b>	<u>4,415,474</u>	<u>4,096,822</u>

- (i) Provisions for employee benefits consist of amounts for annual leave and long service leave accrued by employees, including on-costs.
- (ii) The amounts disclosed are nominal amounts.
- (iii) The amounts disclosed are discounted to present values.
- (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.
- (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.

**(b) Movement in provisions**

	Lease contracts	Make-good	Total
	2011–12	2011–12	2011–12
	\$	\$	\$
<b>Opening balance</b>	485,468	257,580	743,048
Additional provisions recognised	19,566	45,735	65,301
Provisions released	(3,549)	-	(3,549)
<b>Closing balance</b>	<u>501,485</u>	<u>303,315</u>	<u>804,800</u>
Current	24,655	-	24,655
Non-current	476,830	303,315	780,145
	<u>501,485</u>	<u>303,315</u>	<u>804,800</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	
	2011–12 \$	2010–11 \$	2011–12 \$	2010–11 \$
<b>Defined benefit plans (i):</b>				
State Superannuation Fund – revised and new	<b>226,444</b>	237,988	<b>1,156</b>	-
<b>Defined contribution plans:</b>				
VicSuper	<b>886,637</b>	945,810	<b>3,193</b>	-
Other	<b>295,385</b>	294,027	-	-
<b>Total</b>	<b>1,408,466</b>	1,477,825	<b>4,349</b>	-

(i) The bases for determining the level of contributions are determined by the various actuaries of the defined benefit 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 (i)		Present value of minimum future lease payments	
	2011-12	2010-11	2011-12	2010-11
	\$	\$	\$	\$
<b>Finance lease liabilities payable</b>				
Not longer than one year	76,634	169,727	74,229	164,283
Longer than one year and not longer than five years	184,786	85,914	163,141	76,637
Longer than five years	-	-	-	-
<b>Minimum future lease payments</b>	<b>261,420</b>	<b>255,641</b>	<b>237,370</b>	<b>240,920</b>
Less future finance charges	(24,525)	(14,624)	-	-
<b>Present value of minimum lease payments</b>	<b>236,895</b>	<b>241,017</b>	<b>237,370</b>	<b>240,920</b>
<b>Included in the financial statements as:</b>				
Current borrowings lease liabilities (Note 12)	62,888	159,212		
Non-current borrowings lease liabilities (Note 12)	174,007	81,805		
<b>Total interest-bearing liabilities</b>	<b>236,895</b>	<b>241,017</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.

	2011-12	2010-11
	\$	\$
<b>Non-cancellable operating lease payables</b>		
Not longer than one year	1,650,575	1,618,143
Longer than one year and not longer than five years	6,706,166	7,183,999
Longer than five years	-	1,478,570
<b>Total</b>	<b>8,356,741</b>	<b>10,280,712</b>

Maturity analysis of finance lease liabilities and the nature and extent of risk arising from finance lease liabilities are disclosed in Note 18.

## Note 16. Commitments for expenditure

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

### Commitments payable (i)

#### Contract audit commitments

	2011–12	2010–11
	\$	\$
Not longer than one year	4,740,182	4,292,258
Longer than one year and not longer than five years	3,509,474	1,363,093
Longer than five years	-	-
<b>Total contract audit commitments</b>	<b>8,249,656</b>	<b>5,655,351</b>

#### Novated lease commitments

Not longer than one year	14,591	14,592
Longer than one year and not longer than five years	4,490	19,081
Longer than five years	-	-
<b>Total novated lease commitments</b>	<b>19,081</b>	<b>33,673</b>

#### Total commitments for expenditure (inclusive of GST)

	8,268,737	5,689,024
Less GST recoverable from the Australian Taxation Office	(750,852)	(515,669)
<b>Total commitments for expenditure (exclusive of GST)</b>	<b>7,517,885</b>	<b>5,173,355</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 nominal amounts inclusive of GST.

## 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 disclosed in Table 18.1 below.

**Table 18.1 Categorisation of financial instruments**

	2011–12	2010–11
	\$	\$
<b>Contractual financial assets</b>		
Cash	900	900
Receivables: (i)		
Sale of goods and services	34,231	88
Other receivables	9,541	-
<b>Total contractual financial assets</b>	<u>44,672</u>	<u>988</u>
<b>Contractual financial liabilities</b>		
Payables: (i)		
Supplies and services	997,760	1,226,914
Amounts payable to government and agencies	49,597	21,830
Other payables	4,318	16,242
Borrowings:		
Lease liabilities	236,895	241,017
<b>Total contractual financial liabilities</b>	<u>1,288,570</u>	<u>1,506,003</u>

(i) The total amounts disclosed here exclude statutory amounts (e.g. amounts owing from Victorian Government (2011–12: \$10,710,289, 2010–11: \$9,733,103), and taxes payable (2011–12: \$278,328, 2010–11: \$285,015)). 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**

	2011–12	2010–11
	\$	\$
<b>Contractual financial liabilities</b>		
Financial liabilities at amortised cost:		
Interest on finance leases	(4,098)	(17,234)
<b>Total contractual financial liabilities</b>	<u>(4,098)</u>	<u>(17,234)</u>

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>2011–12</b>						
<b>Receivables (i):</b>						
Sale of goods and services	34,231	34,231	-	-	-	-
Other receivables	9,541	9,541	-	-	-	-
<b>Total</b>	<b>43,772</b>	<b>43,772</b>	-	-	-	-
<b>2010–11</b>						
<b>Receivables (i):</b>						
Sale of goods and services	88	88	-	-	-	-
Other receivables	-	-	-	-	-	-
<b>Total</b>	<b>88</b>	<b>88</b>	-	-	-	-

(i) The carrying amounts disclosed here exclude statutory amounts (e.g. Amounts owing from Victorian Government).

### (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 amounts 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 (i)

	Carrying amount	Nominal amount	Maturity dates			
			Less than 1 month	1–3 months	3 months – 1 year	1–5 years
<b>2011–12</b>						
	\$	\$	\$	\$	\$	\$
<b>Payables (ii):</b>						
Supplies and services	997,760	997,760	481,725	511,085	4,950	-
Amounts payable to government and agencies	49,597	49,597	20,091	29,506	-	-
Other payables	4,318	4,318	4,318	-	-	-
<b>Borrowings:</b>						
Lease liabilities	236,895	261,420	6,386	12,772	57,476	184,786
	<b>1,288,570</b>	<b>1,313,095</b>	<b>512,520</b>	<b>553,363</b>	<b>62,426</b>	<b>184,786</b>
<b>2010–11</b>						
<b>Payables (ii):</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	16,242	16,242	16,242	-	-	-
<b>Borrowings:</b>						
Lease liabilities	241,017	255,641	22,571	39,441	107,715	85,914
	<b>1,506,003</b>	<b>1,520,627</b>	<b>1,283,745</b>	<b>43,253</b>	<b>107,715</b>	<b>85,914</b>

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

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

### (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 interest rate	Carrying amount	Interest rate exposure		
			Fixed interest rate	Variable interest rate	Non-interest bearing
<b>2011–12</b>					
		\$	\$	\$	\$
<b>Financial assets</b>					
Cash	-	900	-	-	900
Receivables (i):					
Sale of goods and services	-	34,231	-	-	34,231
Other receivables	-	9,541	-	-	9,541
<b>Total financial assets</b>		<b>44,672</b>	<b>-</b>	<b>-</b>	<b>44,672</b>
<b>Financial liabilities</b>					
Payables (i):					
Supplies and services	-	997,760	-	-	997,760
Amounts payable to government and agencies	-	49,597	-	-	49,597
Other payables	-	4,318	-	-	4,318
Borrowings:					
Lease liabilities	6.59%	236,895	236,895	-	-
<b>Total financial liabilities</b>		<b>1,288,570</b>	<b>236,895</b>	<b>-</b>	<b>1,051,675</b>
<b>2010–11</b>					
<b>Financial assets</b>					
Cash	-	900	-	-	900
Receivables (i):					
Sale of goods and services	-	88	-	-	88
Other receivables	-	-	-	-	-
<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	-	16,242	-	-	16,242
Borrowings:					
Lease liabilities	6.10%	241,017	214,280	-	26,737
<b>Total financial liabilities</b>		<b>1,506,003</b>	<b>214,280</b>	<b>-</b>	<b>1,291,723</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).

**Note 18. Financial instruments (continued)****(e) Fair value**

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

## Note 19. Cash flow information

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

	2011–12	2010–11
	\$	\$
Total cash and cash equivalents disclosed in the balance sheet (i)	<b>900</b>	900
<b>Balance as per cash flow statement</b>	<b>900</b>	900

(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 2012, cash at bank included the amount of a notional shortfall for the payment of unrepresented cheques of \$3,162 (2011: \$16,242).

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

	2011–12	2010–11
	\$	\$
<b>Net result for the period</b>	<b>578,173</b>	515,847
<b>Non-cash movements:</b>		
(Gain) / loss on disposal of non-current assets	<b>(9,173)</b>	(3,984)
Depreciation and amortisation of non-current assets	<b>732,375</b>	764,458
<b>Movements in assets and liabilities:</b>		
(Increase) / decrease in receivables	<b>(1,020,870)</b>	(1,372,758)
(Increase) / decrease in other non-financial assets	<b>185,659</b>	(186,837)
Increase / (decrease) in payables	<b>(219,998)</b>	673,106
Increase / (decrease) in provisions	<b>380,404</b>	231,619
<b>Net cash flows from / (used in) operating activities</b>	<b>626,570</b>	621,451

## 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 Parliamentary authority		Appropriations applied		Variance	
	Advance from Treasurer		Section 3(2)		Section 29		Section 32		2011-12		2010-11	
	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11
<b>Controlled</b>												
Provision for outputs	13,959,000	13,612,000	-	-	22,547,529	21,898,913	-	200,000	36,506,529	35,710,913	36,506,529	35,710,913
Additions to net assets	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>13,959,000</b>	<b>13,612,000</b>	<b>-</b>	<b>-</b>	<b>22,547,529</b>	<b>21,898,913</b>	<b>-</b>	<b>200,000</b>	<b>36,506,529</b>	<b>35,710,913</b>	<b>36,506,529</b>	<b>35,710,913</b>

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

**Parliamentary appropriations**

	2011-12	2010-11
	\$	\$
<b>Appropriation Act</b>		
Annual appropriation	14,303,000	13,612,000
Less: Carried forward to 2012-13	(344,000)	-
	<u>13,959,000</u>	<u>13,612,000</u>

**Financial Management Act 1994**

Section 29 – estimate	21,886,000	19,959,000
Plus: variance from estimate	661,529	1,939,913
	<u>22,547,529</u>	<u>21,898,913</u>

**Section 32**

Brought forward	-	200,000
	<u>-</u>	<u>200,000</u>
Total Parliamentary Authority	<u>36,506,529</u>	<u>35,710,913</u>
Appropriations applied	<u>36,506,529</u>	<u>35,710,913</u>
Variance	<u>-</u>	<u>-</u>

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

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

Authority	Purpose	Appropriations applied	
		2011–12	2010–11
		\$	\$
Section 94A(6) of the <i>Constitution Act 1975</i>	Costs associated with the Auditor-General	455,655	446,640

## 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 2011 to 30 June 2012)
- P Frost (Acting, for 44 days during the period 1 July 2011 to 30 June 2012)

### (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:

\$430,000 – \$439,999 (2010–11 \$440,000 – \$449,999)

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 the 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. The total annualised employee equivalent provides a measure of full time equivalent executive officers over the reporting period.

Income band	Total remuneration		Base remuneration	
	2011-12 No.	2010-11 No.	2011-12 No.	2010-11 No.
\$80,000 to \$89,999	-	-	-	1
\$100,000 to \$109,999	-	1	-	1
\$110,000 to \$119,999	1	2	1	1
\$120,000 to \$129,999	-	1	-	1
\$130,000 to \$139,999	1	-	2	-
\$140,000 to \$149,999	-	-	1	1
\$150,000 to \$159,999	1	2	6	6
\$160,000 to \$169,999	6	4	3	6
\$170,000 to \$179,999	4	5	1	1
\$180,000 to \$189,999	1	3	-	-
\$210,000 to \$219,999	-	-	1	-
\$220,000 to \$229,999	1	-	-	-
\$250,000 to \$259,999	-	-	-	1
\$270,000 to \$279,999	-	1	-	-
\$290,000 to \$299,999	-	-	1	1
\$300,000 to \$309,999	-	1	-	-
\$310,000 to \$319,999	1	-	-	-
<b>Total numbers</b>	<b>16</b>	<b>20</b>	<b>16</b>	<b>20</b>
<b>Total annualised employee equivalents (AEE) (i)</b>	<b>15.1</b>	<b>18.7</b>	<b>15.1</b>	<b>18.7</b>
<b>Total amount</b>	<b>\$ 2,814,353</b>	<b>\$ 3,448,111</b>	<b>\$ 2,635,596</b>	<b>\$ 3,231,769</b>

Other than those executive officers whose remuneration is disclosed in the above table, there were also 4 appointments and 2 departures (2010-11: 1 appointment and 3 departures) 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 these six affected executive officers was \$337,772 (2010-11, \$228,646).

(i) Annualised employee equivalent is based on working 38 ordinary hours per week over the reporting period.

## Note 23. Remuneration of auditors

### Lawler Draper Dillon

	2011–12	2010–11
	\$	\$
Audit of the financial statements of VAGO	<b>32,600</b>	30,600

The auditor of VAGO is appointed by Parliament and paid by the Public Accounts and Estimates Committee in accordance with the *Audit Act 1994*. Mr Steven Bradby from Lawler Draper Dillon was appointed to this position in 2012.

Lawler Draper Dillon has advised that it and its related practices were not at any time during the year directly or indirectly involved in any other audit or non-audit services provided to VAGO, including attest audits as an attest audit service provider.

The previous auditor was Mr Peter Sexton of Crowe Horwath Melbourne. In addition to the remuneration disclosed above for the 2010–11 audit of the financial statements of VAGO, Crowe Horwath Melbourne and related practices WHK Audit (Vic) and WHK Audit & Risk Assessment performed attest audits of VAGO clients as contract attest audit service provider. Total payments for services made to those practices during 2010–11 was \$1,845,389.

## Note 24. Subsequent events

VAGO has no subsequent events to report.

## Note 25. Glossary of terms and style conventions

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

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

### **Borrowings**

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

### **Comprehensive result**

The net result of all items 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**

Depreciation is an expense that arises from the consumption through wear or time of a produced 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.

## Note 25. Glossary of terms and style conventions (continued)

### 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.

## Note 25. Glossary of terms and style conventions (continued)

### Net result

Net result is a measure of financial performance of the operations for the period. It is the net result of items of income, 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-financial 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 amounts owing from government through appropriation receivable, 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.

## Note 25. Glossary of terms and style conventions (continued)

### 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	negative numbers
200	year period
200x-0x	year period

The financial statements and notes are presented based on the illustration for a government department in the 2011–12 *Model Report for Victorian Government Departments*. The presentation of other disclosures is generally consistent with the other disclosures made in earlier publications of VAGO's annual reports.

# Appendix 1:

## Audit reports to Parliament

Date report was tabled	VAGO report number	Report title	Pages
17 August 2011	2011–12:1	Biotechnology in Victoria: the Public Sector's Investment	84
17 August 2011	2011–12:2	Developing Cycling as a Safe and Appealing Mode of Transport	52
31 August 2011	2011–12:3	Road Safety Camera Program	88
14 September 2011	2011–12:4	Business Planning for Major Capital Works and Recurrent Services in Local Government	48
14 September 2011	2011–12:5	Individualised Funding for Disability Services	52
12 October 2011	2011–12:6	Supporting Changes in Farming Practices: Sustainable Irrigation	52
12 October 2011	2011–12:7	Maternity Services: Capacity	60
26 October 2011	2011–12:8	Procurement Practices in the Health Sector	56
26 October 2011	2011–12:9	TAFE Governance	68
9 November 2011	2011–12:10	Auditor General's Report on the Annual Financial Report of the State of Victoria, 2010–11	84
9 November 2011	2011–12:11	Public Hospitals: Results of the 2010–11 Audits	108
9 November 2011	2011–12:12	Water Entities: Results of the 2010–11 Audits	164
23 November 2011	2011–12:13	Portfolio Departments and Associated Entities: Results of the 2010–11 Audits	96
23 November 2011	2011–12:14	Local Government: Results of the 2010–11 Audits	164
7 December 2011	2011–12:15	Victorian Institute of Teaching	48
7 December 2011	2011–12:16	Managing Contaminated Sites	80
7 December 2011	2011–12:17	Compliance with Building Permits	92
7 December 2011	2011–12:18	Management of Road Bridges	52
8 February 2012	2011–12:19	State Trustees Limited: Management of represented persons	40
29 February 2012	2011–12:20	Public Transport Performance	48
29 February 2012	2011–12:21	Government Advertising and Communications	72
14 March 2012	2011–12:22	Agricultural Food Safety	48
14 March 2012	2011–12:23	Melbourne Markets Redevelopment	68
28 March 2012	2011–12:24	Access to Public Housing	48
18 April 2012	2011–12:25	Freedom of Information	112
18 April 2012	2011–12:26	Casual Relief Teacher Arrangements	44
18 April 2012	2011–12:27	Performance Reporting by Local Government	88
2 May 2012	2011–12:28	Personal Expense Reimbursement, Travel Expenses and Corporate Credit Cards	64
23 May 2012	2011–12:29	Payments to Visiting Medical Officers in Rural and Regional Hospitals	40
23 May 2012	2011–12:30	Tertiary Education and Other Entities: Results of the 2011 Audits	116
23 May 2012	2011–12:31	Management of Trust Funds in the Justice Portfolio	60
6 June 2012	2011–12:32	Fraud Prevention Strategies in Local Government	52
6 June 2012	2011–12:33	Science and Mathematics Participation Rates and Initiatives	60
20 June 2012	2011–12:34	Effectiveness of Justice Strategies in Preventing and Reducing Alcohol-Related Harm	100
20 June 2012	2011–12:35	Obsolescence of Frontline ICT: Police and Schools	52



# Appendix 2:

## External engagements

### Delegations, placements and secondments in 2011–12

	Dates	Purpose, interest or theme of visit
<b>Delegations</b>		
Beijing Municipal Audit Bureau	14–15 August	Performance audit
Department of Audit, Guizhou Provincial Government	17 August	Performance audit
Political and Legislative Affairs Committee of the Communist Party of China	25 August	Performance audit and auditing service delivery by third parties
Indonesian Board of Finance and Development Control	21 September	Financial and performance audit, internal controls, risk management and fraud controls
New Zealand Office of the Auditor-General	23–24 May	Audit planning, evidence collection and reporting to Parliament
<b>Placements and secondments</b>		
Placement of fellows through the Asia Pacific Economic Cooperation from Brazil, India and Thailand	11–15 July	Australian Leadership Awards Fellowship Program – focus on public-private partnerships in infrastructure development
Two placements from Indonesian Department of Finance	31 October – 18 November	Performance audit
Secondment to Hong Kong Audit Office	1 February – 30 April	VAGO Financial Auditor seconded to Hong Kong – knowledge transfer and professional development
Secondment from Hong Kong Audit Commission	1 February – 30 April	Hong Kong Performance Auditor seconded to VAGO – knowledge transfer and professional development
Secondment to British Columbia Office of the Auditor-General	24 June – 22 August	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	BC Financial Auditor seconded to VAGO – knowledge transfer and professional development
Secondment from British Columbia Office of the Auditor-General	6 February – 7 December	BC Financial Auditor seconded to VAGO – knowledge transfer and professional development
Student internship from Institut d'Etudes Politiques de Rennes, France	18 July – 18 January	Policy coordination and performance auditing

## Presentations by the Auditor-General in 2011–12

Date	Presentation to	Topic
11 August 2011	Chartered Secretaries Australia – Governance Luncheon	Lessons from audits: Key themes from VAGO's 2010–11 audit program
12 September 2011	Monash University – Governance course	Parliament's Auditor: Role and Perspectives
7 October 2011	Australasian Study of Parliament Group National Conference	Trends in public sector audit legislation: from Federation to follow-the-dollar
7 October 2011	Australia and New Zealand School of Government – Public Sector Financial Management course	Auditing in the Public Interest
25 October 2011	State Coordination and Management Council	Lessons from audits: Key themes from VAGO's 2010–11 audit program
28 October 2011	KPMG Public Sector Audit Committee Series Luncheon	Parliament's Auditor – Roles and Perspectives
4 November 2011	Australian Asset Management Collaborative Group Forum	Managing Infrastructure Assets, one year on – lessons learnt
8 December 2011	Institute of Public Administration Australia – How Government Works	Parliament's Auditor – Roles and Perspectives
17 November 2011	Australian Public Sector Anti-Corruption Conference	Outsourcing work, 'insourcing' corruption – Perspectives from Auditors General
28 November 2011	Department of Primary Industries Executive Team	Lessons from audits: Key themes from VAGO's 2010–11 audit program
30 November 2011	L21 Leaders in the Public Sector Conference	Lessons from audits: an evidence-based approach for improving responsiveness in our public service
8 December 2011	Ernst & Young's VAGO Account Team	Lessons from audits: Key themes from VAGO's audit program
6 February 2012	Commonwealth Parliamentary Association's Summer Residency for Public Accounts Committees	The Public Accounts Committee/Auditor-General relationship: the Victorian model
9 February 2012	Commonwealth Parliamentary Association's Summer Residency for Public Accounts Committees	Reporting Audit Results to Parliament
13 February 2012	La Trobe University Council meeting	Lessons from audits: Key themes from VAGO's 2010–11 program
14 February 2012	Department of Justice – Strategic Policy and Legislation Division	Improving accountability and performance in the public sector
16 February 2012	Committee for Economic Development of Australia	Public Sector Accountability: Impacts for Government and Public Service Providers
27 February 2012	Victorian Public Sector Young Leaders Conference	Building resilience and embracing challenges
2 March 2012	University of Melbourne – Centre for Public Policy	'Governance hotspots' in the Victorian public service
20 April 2012	Local Government Professionals: CEO Forum	Improving accountability and performance in the local government sector
1 May 2012	Institute of Public Administration Australia – How Government Works	Parliament's Auditor: Role and Perspectives
29 May 2012	Public Record Office Victoria – Record Managers Forum	Record Keeping, Freedom of Information, and VAGO investigations
30 June 2012	Accounting and Finance Association of Australia and New Zealand – Public Sector and Not-for-Profit Accounting Special Interest Group	Changing service delivery modes – Implications for public sector audit

# Appendix 3:

## 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 2011–12* (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.

	2011–12				
	Budget			Actual	Variance (ii)
	Parliament	VAGO	Controlled Parliament (i)	VAGO	VAGO
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Income from transactions</b>					
Output appropriations	94,428.6	34,762.3	129,190.9	36,506.5	1,744.2
Special appropriations	23,434.0	472.0	23,906.0	455.7	(16.3)
Sale of goods and services	0.0	0.0	0.0	125.4	125.4
Grants	54.0	0.0	54.0	0.0	0.0
Fair value of services received free of charge	0.0	37.0	37.0	32.6	(4.4)
<b>Total income from transactions</b>	<b>117,916.6</b>	<b>35,271.3</b>	<b>153,187.9</b>	<b>37,120.2</b>	<b>1,848.9</b>
<b>Expenses from transactions</b>					
Employee benefits	60,923.0	18,479.0	79,402.0	18,916.8	(437.8)
Depreciation and amortisation	5,758.0	871.0	6,629.0	732.4	138.6
Interest expense	282.0	22.0	304.0	18.2	3.8
Capital asset charge	1,928.1	202.0	2,130.1	202.0	0.0
Other operating expenses	49,025.5	15,378.0	64,403.5	16,437.6	(1,059.6)
<b>Total expenses from transactions</b>	<b>117,916.6</b>	<b>34,952.0</b>	<b>152,868.6</b>	<b>36,307.0</b>	<b>(1,355.0)</b>
<b>Net result from transactions (net operating balance)</b>	<b>0.0</b>	<b>319.3</b>	<b>319.3</b>	<b>813.2</b>	<b>493.9</b>

(i) Budget figures are as published in 2011–12 Statement of Finances: Budget Paper No. 5, page 140 (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 4:

## Disclosure index

VAGO's annual report is prepared in accordance with all relevant Victorian legislation and pronouncements. This index has been prepared to facilitate identification of VAGO's compliance with statutory disclosure requirements.

Legislation	Requirement	Page reference
<b>Ministerial directions</b>		
<b>Report of operations – FRD guidance</b>		
<b>Charter and purpose</b>		
FRD 22C	Manner of establishment and the relevant minister	1
FRD 22C	Objectives, functions, powers and duties	Inside cover, 1
FRD 22C	Nature and range of services provided	1
<b>Management and structure</b>		
FRD 22C	Organisational structure	46
<b>Financial and other information</b>		
FRD 8B	Budget portfolio outcomes	117
FRD 10	Disclosure index	118–119
FRD 15B	Executive officer disclosures	55–56
FRD 22C, SD 4.2(k)	Operational and budgetary objectives and performance against objectives	9–28
FRD 22C	Employment and conduct principles	56–57
FRD 22C	Occupational health and safety policy	58–59
FRD 22C	Summary of the financial results for the year	66–68
FRD 22C	Significant changes in financial position during the year	68
FRD 22C	Major changes or factors affecting performance	66–68
FRD 22C	Subsequent events	109
FRD 22C	Application and operation of <i>Freedom of Information Act 1982</i>	51
FRD 22C	Compliance with building and maintenance provisions of <i>Building Act 1993</i>	52
FRD 22C	Statement on National Competition Policy	51
FRD 22C	Application and operation of the <i>Whistleblowers Protection Act 2001</i>	51
FRD 22C	Details of consultancies over \$10 000	68–69
FRD 22C	Details of consultancies under \$10 000	68
FRD 22C	Statement of availability of other information	120
FRD 24C	Reporting of office-based environmental impacts	60–64
FRD 25A	Victorian Industry Participation Policy disclosures	52
FRD 29	Workforce data disclosures – Public Sector Employees	52–56
SD 4.5.5	Risk management compliance attestation	50
SD 4.2(g)	General information requirements	9–70
SD 4.2(j)	Sign-off requirements	Inside cover

Legislation	Requirement	Page reference
<b>Financial report</b>		
<b><i>Financial statements required under Part 7 of the Financial Management Act 1994</i></b>		
SD4.2(b)	Comprehensive operating statement	74
SD4.2(b)	Balance sheet	75
SD4.2(b)	Statement of changes in equity	76
SD4.2(b)	Cash flow statement	77
<b><i>Other requirements under Standing Directions 4.2</i></b>		
SD4.2(a)	Statement of compliance	78
SD4.2(c)	Compliance with Australian accounting standards and other authoritative pronouncements	72
SD4.2(c)	Compliance with Ministerial Directions	72
SD4.2(d)	Rounding of amounts	80
SD4.2(c)	Accountable officer's and chief finance and accounting officer's declaration	72
SD4.2(f)	Compliance with Model Financial Report	68
<b><i>Other disclosures as required by FRDs in notes to the financial statements</i></b>		
FRD 9A	Disclosure of administered assets and liabilities	89
FRD 13	Disclosure of Parliamentary appropriations	106–107
FRD 21B	Responsible person and executive officer disclosures	107–108
FRD 103D	Non-current physical assets	93–94
FRD 106	Impairment of assets	82–83
FRD 109	Intangible assets	95
FRD 110	Cash flow statements	77
FRD 112C	Defined benefit superannuation obligations	81, 98
FRD 114A	Financial Instruments – General Government Entities and public non-financial corporations	82, 101–104
FRD 119	Contributions by owners	86
FRD 120F	Accounting and reporting pronouncements applicable to the 2011–12 reporting period	86
<b><i>FRDs applicable to VAGO with no disclosures to make in 2011–12</i></b>		
FRD 11	Disclosure of ex-gratia payments	
FRD 12A	Disclosure of major contracts	
<b>Legislation</b>		
	<i>Financial Management Act 1994</i>	78
	<i>Audit Act 1994</i>	1
	<i>Freedom of Information Act 1982</i>	51
	<i>Building Act 1993</i>	52
	<i>Whistleblowers Protection Act 2001</i>	51
	<i>Victorian Industry Participation Policy Act 2003</i>	52
	<i>Information Privacy Act 2000</i>	51

# Appendix 5:

## Additional information available

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 57)
- audit fees, which are revised annually (see page 28)
- details of overseas visits undertaken, including a summary of the objectives and outcomes of each visit (see page 59)
- details of assessments and measures undertaken to improve the occupational health and safety of employees (see page 58–59)
- a general statement on industrial relations within the office and details of time lost through industrial accidents and disputes (see page 57)
- a list of major committees sponsored by VAGO, and the purposes of each (see pages 48–50).

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)