7 Our financial management

Financial performance

Our net financial result for the year as shown in Figure 24 was a surplus of $83 000 (compared with a surplus of $537 000 in 2014–15).

[Figure 24] Revenues and expenses, 2011–12 to 2015–16

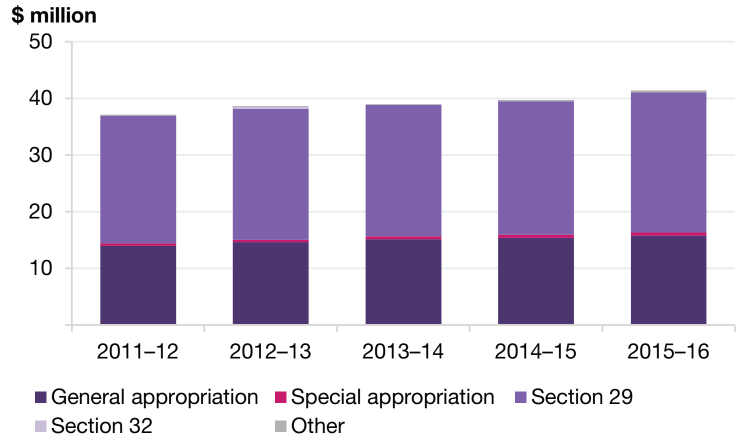
Item	2015–16 ($'000)	2014–15 ($'000)	2013–14 ($'000)	2012–13 ($'000)	2011–12 ($'000)
Revenue					
General appropriation	15 789	15 404	15 179	14 661	13 959
Special appropriation	576	541	495	362	456
Section 29	24 732	23 536	23 191	23 136	22 547
Section 32 carry-over	–	–	–	344	–
Other	286	217	89	151	158
Total revenue	**41 383**	**39 698**	**38 954**	**38 654**	**37 120**
Total expenses	**41 300**	**39 161**	**38 994**	**37 197**	**36 542**
Surplus/(deficit)	**83**	**537**	**(40)**	**1 457**	**578**

Revenue

We are funded through Parliamentary appropriations and *Financial Management Act 1994* section 29 revenue (as shown in Figure 25).

Revenue increased 4 per cent in 2015–16 because of increases in inflation in respect of general appropriation, and increases in internally generated Section 29 revenue as a result of increases in the recovery of audit service providers (ASP) costs. Other revenue increased as a result of recovering additional costs from our staff seconded to other agencies.

[Figure 25] Sources of VAGO funding, 2011–12 to 2015–16



Note: See Figure 24 for breakdown.

Relevant strategic objective

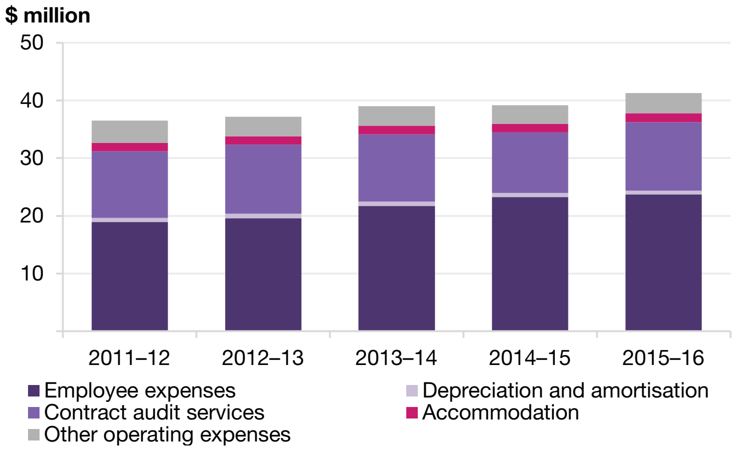
Organisation
Leverage our systems and processes to improve organisational performance.

Expenses

Our office spends most of its budget on employees, contract audit services (including ASPs) and miscellaneous expenses, such as accommodation, supplies and services.

As shown in Figure 26, spending increased 5 per cent in 2015–16, mainly as a result of ASPs' fees and staff salaries—despite annualised FTE declining from 184.4 to 182.2. We also spent more on consultants, human resources recruitment fees, PwC internal audit fees, and legal fees.

[Figure 26] Expenses, 2011–12 to 2015–16



Note: See Figure 27 for breakdown.

[Figure 27] Expenses from ordinary activities, 2011–12 to 2015–16

Item	2015–16 ($'000)	2014–15 ($'000)	2013–14 ($'000)	2012–13 ($'000)	2011–12 ($'000)
Expenses					
Depreciation and amortisation	657	765	753	802	732
Employee expenses	23 715	23 238	21 714	19 587	18 917
Contract audit services	11 893	10 446	11 652	11 956	11 531
Rental expenses – accommodation	1 520	1 514	1 509	1 462	1 477
Other expenses	3 515	3 198	3 366	3 390	3 885
Total expenses[(a)]	**41 300**	**39 161**	**38 994**	**37 197**	**36 542**

(a) Gross including secondment costs.

Output results

Output Group 1—Parliamentary reports and services

Output revenue increased by $0.4 million, in line with inflation. Output costs were lower by $1.1 million due to lower salaries from unfilled staff positions and lower contractor costs, offset by higher consulting and internal audit fees.

Output Group 2—Audit reports on financial statements

Output revenue increased by $1.3 million, mainly due to increased ASPs' fee recovery. Output costs are higher by $3.2 million, largely due to higher ASPs' fees ($1.4 million) and higher employee entitlements ($1.7 million).

[Figure 28] Total revenues and expenses attributed to outputs, 2014–15 and 2015–16

	2015–16			2014–15		
Output Group	Revenue ($'000)	Expenses[(a)] ($'000)	Net result ($'000)	Revenue ($'000)	Expenses[(a)] ($'000)	Net result ($'000)
1. Parliamentary reports and services	16 239	15 151	1 088	15 840	16 221	(381)
2. Audit reports on financial statements	25 144	26 149	(1 005)	23 858	22 940	918
Total	**41 383**	**41 300**	**83**	**39 698**	**39 161**	**537**

(a) Gross including secondment costs.

Financial position

As shown in Figure 29, our financial position at 30 June 2016 remained strong, with total assets of $18.3 million, total liabilities of $9.6 million and net assets of $8.7 million.

Assets

Total financial assets increased by $1.9 million due to an increase in the SAU asset (inter-agency balance). This is, in turn, due to a corresponding increase in liabilities (see comments below).

Non-financial assets reduced by $0.4 million from a declining asset base.

Liabilities

Total payables increased by $0.6 million, mainly from higher supplier costs and accrued salaries from more days leading to 30 June, offset by early payment of some creditors.

Lease liabilities were higher ($0.1 million) due to increased purchase of motor vehicles.

Provisions have increased by $0.7 million. This is mostly attributable to increased employee entitlement provisions from higher annual leave and long service leave. This is partly a result of new staff bringing additional entitlements as they join our office. Our accommodation make-good provision of $0.6 million switched from non-current to current because our lease is due to expire on 31 March 2017.

Net assets

Net assets increased by $0.1 million from the resultant operating surplus.

[Figure 29] Asset and liability movement, 2011–12 to 2015–16

Item	2015–16 ($'000)	2014–15 ($'000)	2013–14 ($'000)	2012–13 ($'000)	2011–12 ($'000)
Financial assets	16 962	15 019	13 965	12 930	10 755
Non-financial assets	1 386	1 803	2 326	2 518	2 690
Total assets	**18 348**	**16 822**	**16 291**	**15 448**	**13 445**
Total liabilities	**9 654**	**8 211**	**8 217**	**7 333**	**6 787**
Net assets	**8 694**	**8 611**	**8 074**	**8 115**	**6 658**

Other financial matters

Financial report

Under 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. This annual report complies with this requirement.

Consultancies

In 2015–16, we engaged one consultancy where the total fees payable were greater than $10 000. Details of this consultancy are outlined in Figure 30. We also engaged seven consultancies where the total fees payable were less than $10 000, with total expenditure of $26 000 (excluding GST).

[Figure 30] Details of individual consultancies—payments in excess of $10 000, 2015–16

Consultant	Purpose of consultancy	Start date	End date	Total approved project fee (excluding GST)	Expenditure 2015–16 (excluding GST)	Future expenditure (excluding GST)
Aginic	Advice on data analytics software	20 April 2016	20 May 2016	$46 000	$46 000	–

Performance audit contractors

In 2015–16, we paid $0.54 million ($0.45 million in 2014–15) to 17 contractors for services related to our performance audits (See Figure 31).

[Figure 31] Payments to performance audit contractors, 2014–15 and 2015–16

Performance audit contractor	2015–16 ($'000)	2014–15 ($'000)
Australian Survey Research Group Proprietary Limited	45	13
Chappell Dean Proprietary Limited	77	29
Clear Horizon Consulting Proprietary Limited	108	77
Deakin University	0	12
EMI Partners	0	10
E W Russell & Associates Proprietary Limited	16	16
Guidera Consulting Group Proprietary Limited	77	0
J H Resources Proprietary Limited	0	29
O'Connor Marsden & Associates Proprietary Limited	0	21
Orima Research Proprietary Limited	30	43
Ovum Proprietary Limited	24	21
P S Consulting	0	47
Paul Edney	20	0
P G Rorke	46	59
Pitt Group	0	34
Security Infrastructure Solutions	68	0
Wallis	0	22
Other—Seven service providers (three in 2014–15)	29	16
Total	**540**	**449**

Financial audit service providers

In 2015–16, we paid $11.4 million ($10.0 million in 2014–15) to 27 audit firms that provided services related to our financial statement audits (see Figure 32).

[Figure 32] Payments to financial audit service providers, 2015–16

Financial Audit Service Provider (ASP)	2015–16 ($'000)	2014–15 ($'000)
Accounting and Auditing Solutions	47	66
Coffey Hunt Audit	411	466
Crowe Horwath	461	838
Crowe Horwath Albury	428	336
Crowe Horwath Vic	706	478
Crowe Horwath West Vic	215	0
Davidsons Assurance Services Proprietary Limited	56	57
Deloitte Touche Tohmatsu	92	401
DFK Kidsons	74	110
DMG Audit and Advisory	178	75
Ernst & Young	1 163	846
Grant Thornton Audit Proprietary Limited	76	90
HLB Mann Judd (VIC Partnership)	2 365	2,013
Johnsons MME	227	278
KPMG	370	6
LD Assurance	102	128
McLean Delmo Bentleys Proprietary Limited	812	186
MGR Accountants Proprietary Limited	17	62
Pricewaterhousecoopers (Vietnam) Limited	38	34
RSD Advisors	1 102	982
RSM Australia Proprietary Limited (previously RSM Bird Cameron)	2 288	1 551
UHY Haines Norton Melbourne Proprietary Limited	16	872
University of Melbourne(a)	82	81
Other—four service providers (two in 2014–15)	28	41
Total	**11 354**	**9 997**

Note: The University of Melbourne was engaged to assist in the review of the estimated financial statements. The University of Melbourne is also one of the agencies the Auditor-General is required to audit, and it has not been engaged by VAGO directly or indirectly to audit its own financial statements.

Financial report

Declaration

Accountable Officer's and Chief Financial 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 2016 and financial position of VAGO at 30 June 2016.

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 9 August 2016.

Dr Peter Frost
Acting Auditor-General
Victorian Auditor-General's Office

Melbourne
9 August 2016

Chiang Yip
Chief Financial Officer
Victorian Auditor-General's Office

Melbourne
9 August 2016

Independent auditor's report

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Independent Auditor's Report to the Auditor-General in relation to the Victorian Auditor-General's Office

Report on the Financial Report

We have audited the accompanying financial report of the Victorian Auditor-General's Office, which comprises the statement of financial position as at 30 June 2016, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the accountable officer's and chief financial 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 Management Act 1994, and for such internal control as the Auditor-General determines is necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial 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 of the Victorian Auditor-General's Office presents fairly, in all material respects, the financial position of the Victorian Auditor-General's Office as at 30 June 2016 and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) and the Financial Management Act 1994.

Nexia

Nexia Melbourne Audit Pty Ltd
Melbourne

Geoff S. Parker
Director

Dated this 9 day of August 2016

Nexia Melbourne Audit Pty Ltd
Registered Audit Company 291969
Level 12, 31 Queen Street, Melbourne VIC 3000
p +61 3 8613 8888, f +61 3 8613 8800
info@nexiamelbourne.com.au, www.nexia.com.au

Independent member of Nexia International

Comprehensive operating statement

for the financial year ended 30 June 2016

	Note	**2015–16**	2014–15
		$'000	$'000
Income from transactions			
Output appropriations	4(a)	**40,521**	38,940
Special appropriations	4(b)	**576**	541
Sale of goods and services	4(c)	**253**	182
Fair value of services received free of charge or for nominal consideration	4(d)	**33**	35
Total income from transactions		**41,383**	39,698
Expenses from transactions			
Employee expenses	5(a)	**23,715**	23,238
Depreciation and amortisation	5(b)	**657**	765
Interest expense	5(c)	**15**	33
Capital asset charge		**120**	117
Fair value of services provided free of charge or for nominal consideration		**-**	75
Contract audit services		**11,893**	10,446
Rental expenses – accommodation		**1,520**	1,514
Recruitment and training		**634**	531
Other operating expenses	5(d)	**2,673**	2,358
Total expenses from transactions		**41,228**	39,077
Net result from transactions (net operating balance)		**155**	621
Other economic flows included in net result			
Net gain / (loss) on non-financial assets *(i)*	6(a)	**24**	(10)
Other gains / (losses) from other economic flows	6(b)	**(96)**	(75)
Total other economic flows included in net result		**(72)**	(84)
Net result		**83**	537
Comprehensive result		**83**	537

(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 2016

	Note	**2015–16 $'000**	2014–15 $'000
Assets			
Financial assets			
Cash	19(a)	**1**	1
Receivables	7	**16,961**	15,018
Total financial assets		**16,962**	15,019
Non-financial assets			
Property, plant and equipment	8	**810**	1,240
Intangible assets	9	**94**	51
Prepayments and accrued income	10	**481**	511
Total non-financial assets		**1,386**	1,802
Total assets		**18,348**	16,822
Liabilities			
Payables	11	**2,130**	1,519
Borrowings	12	**292**	197
Provisions	13	**7,232**	6,495
Total liabilities		**9,654**	8,211
Net assets		**8,694**	8,611
Equity			
Accumulated surplus		**8,398**	8,315
Contributed capital		**295**	295
Net worth		**8,694**	8,611
Commitments for expenditure	16		
Contingent assets and contingent liabilities	17		

The 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 2016

	Accumulated surplus $'000	Contributed capital $'000	TOTAL $'000
Balance at 1 July 2014	**7,779**	**295**	**8,074**
Net result for the year	537	-	537
Balance at 30 June 2015	**8,315**	**295**	**8,611**
Net result for the year	83	-	83
Balance at 30 June 2016	**8,398**	**295**	**8,694**

The 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 2016

	Note	2015–16 $'000	2014–15 $'000
Cash flows from operating activities			
Receipts			
Receipts from government		**41,836**	40,782
Receipts from other entities		**253**	182
Total receipts		**42,090**	40,964
Payments			
Payments to suppliers and employees		**(40,853)**	(39,797)
Goods and Services Tax paid to the ATO *(i)*		**(966)**	(809)
Capital asset charge payments		**(120)**	(117)
Interest paid		**-**	(13)
Total payments		**(41,939)**	(40,735)
Net cash flows from / (used in) operating activities	19(b)	**151**	229
Cash flows from investing activities			
Purchases of non-financial assets		**(381)**	(187)
Sales of non-financial assets		**135**	4
Net cash flows from / (used in) investing activities		**(246)**	(183)
Cash flows from financing activities			
Proceeds from finance leases		**278**	40
Repayment of finance leases		**(182)**	(86)
Net cash flows from / (used in) financing activities		**95**	(46)
Net increase / (decrease) in cash held		**-**	-
Cash at the beginning of the financial year		**1**	1
Cash at the end of the financial year	19(a)	**1**	1

(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 financial statements

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) for the year ending 30 June 2016. 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 AASs 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 these financial statements, a glossary of terms and style conventions can be found in Note 25.

These annual financial statements were authorised for issue by Dr Peter Frost (Acting Auditor-General) and Chiang Yip (Chief Financial Officer) on 9 August 2016.

(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.

Those judgements, estimates and assumptions that have the most significant effect on the amounts recognised in the financial report are included in the following notes:

- Notes 8 and 9—estimated useful life of major classes of property, plant and equipment, and intangible assets; and
- Note 13—wage inflation and discount rate used in the measurement of employee entitlements.

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.

Consistent with AASB 13 *Fair Value Measurement*, VAGO determines the policies and procedures for recurring fair value measurements such as property, plant and equipment, and financial instruments, in accordance with the requirements of AASB 13 and the relevant Financial Reporting Directions.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For the purpose of fair value disclosures, VAGO has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

In addition, VAGO determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(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 main purpose of VAGO is to provide assurance to Parliament on the accountability and performance of the Victorian public sector.

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 outputs:

- Parliamentary reports and services
- Audit reports on financial statements.

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

(d) Administered items

VAGO administers but does not control certain resources 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 as an agent 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 the output 'Audit reports on financial statements'. (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.

(e) Scope and presentation of financial statements

Comprehensive operating statement

The comprehensive operating statement comprises two components, being 'net result from transactions' (or termed as 'net operating balance') and 'other economic flows included in net result'. The sum of these two represents the net result.

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

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

- gains and losses from disposals of non-financial assets;
- revaluations and impairments of non-financial physical and intangible assets; and
- revaluation of the long service leave liability.

Notes to financial statements

Note 1. Summary of significant accounting policies (continued)

This classification is consistent with the whole of government reporting format and is allowed under AASB 101 *Presentation of Financial Statements.*

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 are disclosed in the notes, where relevant. In general, non-current assets or liabilities are expected to be recovered or settled more than 12 months after the reporting period, except for the provisions of employee benefits, which are classified as current liabilities if VAGO does not have the unconditional right to defer the settlement of the liabilities within 12 months after the end of the reporting period.

Statement of changes in equity

The statement of changes in equity presents reconciliations of non-owner and owner changes in equity from opening balances at the beginning of the reporting period to the closing balances at the end of the reporting period. It also shows separately changes due to amounts recognised in the 'Comprehensive result' and amounts 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

Amounts in the financial statements have been rounded to the nearest $1 000, unless otherwise stated. Figures in the financial statements may not equate due to rounding. Please refer to the end of Note 25 for a style convention for explanations of minor discrepancies resulting from 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.

Income from sale of goods

Income from the sale of goods is recognised when:

- VAGO no longer has any of the significant risks and rewards of ownership of the goods transferred to
- the buyer;
- VAGO no longer has 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 or for nominal consideration

Contributions of services received free of charge or for nominal consideration 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 from transactions 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(m) regarding employee benefits.

These expenses include all forms of considerations given by VAGO in exchange for service rendered by employees or for the termination of employment. This includes wages and salaries, superannuation, fringe benefits tax, leave entitlements, termination 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 during the reporting period.

The Department of Treasury and Finance (DTF) in its annual financial statements, discloses 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.

Notes to financial statements

Note 1. Summary of significant accounting policies (continued)

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(l) 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 represents costs incurred in connection with borrowings. It includes interest components of finance lease repayments, and the increase in financial liabilities and non-employee provisions due to the unwinding of discounts to reflect the passage of time.

Interest expense is recognised in the period in which it is incurred. Refer to Note 25 for an explanation of interest expense items.

Capital asset charge

A charge levied on the written down value of controlled non current physical assets in a department's balance sheet which aims to: attribute to agency outputs the opportunity cost of capital used in service delivery; and provide incentives to departments to identify and dispose of underutilised or surplus assets in a timely manner. The capital asset charge is calculated on the budgeted carrying amount of applicable non financial physical assets.

Other operating expenses

Other operating expenses generally represent the day-to-day running costs incurred in normal operations and include:

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 or for nominal consideration

Contributions of resources provided free of charge or for nominal consideration 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 changes in the volume or value of assets or liabilities that do not result from transactions.

Net gain / (loss) on non-financial assets

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

Net gain / (loss) on 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 the proceeds from 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.

If there is an indication that there has been a reversal in the estimate of an asset's recoverable amount since the last impairment loss was recognised, the carrying amount shall be increased to its recoverable amount. The impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised in prior years.

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(l) 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 the revaluation of the present value of the long service leave liability due to changes in the bond interest rates.

(i) Administered income

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

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

(j) Financial instruments

Financial instruments arise out of contractual agreements that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Due to the nature of VAGO's activities, certain financial assets and financial liabilities arise under statute rather than a contract. Such financial assets and financial liabilities do not meet the definition of financial instruments in AASB 132 *Financial Instruments: Presentation*. For example, statutory receivables arising from taxes, fines and penalties do not meet the definition of financial instruments as they do not arise under contract.

Where relevant, for note disclosure purposes, a distinction is made between those financial assets and financial liabilities that meet the definition of financial instruments in accordance with AASB 132 and those that do not.

Notes to financial statements

Note 1. Summary of significant accounting policies (continued)

The following refers to financial instruments unless otherwise stated.

Categories of non-derivative financial instruments

Receivables

Receivables are financial instrument assets with fixed and determinable payments that are not quoted on an active market. These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial measurement, receivables are measured at amortised cost using the effective interest method, less any impairment.

Receivables category includes cash (refer to Note 1(k)), trade receivables and other receivables, but not statutory receivables.

Financial liabilities at amortised cost

Financial instrument liabilities are initially recognised on the date they are originated. They are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial instruments are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the interest bearing liability, using the effective interest rate method.

Financial instrument liabilities measured at amortised cost include all of VAGO's contractual payables, and interest bearing arrangements other than those designated at fair value through profit or loss.

(k) Financial assets

Cash

Cash comprises cash on hand.

Receivables

Receivables consist of:

- contractual receivables, such as debtors in relation to goods and services; and
- statutory receivables, such as amounts owing from the Victorian Government and Goods and Services Tax (GST) input tax credits recoverable.

Receivables and work-in-progress related to audit fees raised are reported as administered items in Note 3.

Contractual receivables are classified as financial instruments and categorised as receivables (refer to Note 1(j) *Financial instruments* for recognition and measurement). Statutory receivables are recognised and measured similarly to contractual receivables (except for impairment), but are not classified as financial instruments because they do not arise from a contract.

Receivables are subject to impairment testing as described below. A provision for doubtful receivables is recognised when there is objective evidence that the debts may not be collected, and bad debts are written off when identified.

For the measurement principle of receivables, refer to Note 1(j).

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 are subject to annual review for impairment.

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

(l) Non-financial assets

Work in progress

Work in progress represents the reasonable cost of audit services performed but not yet invoiced and is based on:

- weekly timesheets and hourly rates for each level of staff; and
- cost of work undertaken on behalf of the Office by contracted audit service providers.

The recoverability of work in progress is regularly reviewed and an allowance for impairment is provided if there is evidence that amounts are not fully recoverable. Work-in-progress related to audit fees raised is reported in administered items in Note 3.

Property, plant and equipment

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

The initial cost for non-financial physical assets under a finance lease (refer to Note 1(n)) is measured at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease.

The fair value of plant and equipment is normally determined by reference to the asset's depreciated replacement cost.

Certain assets are acquired under finance leases. Refer to Notes 1(n) *Leases* and 1(p) *Commitments* for more information.

For the accounting policy on impairment of non-financial physical assets, refer to impairment of non-financial assets under Note 1(h) *Impairment of non-financial assets*.

More details about the valuation techniques and inputs used in determining the fair value of non-financial physical assets are discussed in Note 8 *Property, plant and equipment.*

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.

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.

Refer to Note 1(g) *Depreciation and amortisation*, and Note 1(h) *Impairment of non-financial assets*.

Prepayments and accrued income

Prepayments 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. Accrued income represents amounts not received at the balance sheet date in exchange for the provision of services in the accounting period.

Notes to financial statements

Note 1. Summary of significant accounting policies (continued)

(m) Liabilities

Payables

Payables consist of:

- contractual payables, such as accounts payable. 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; and
- statutory payables, such as goods and services tax and fringe benefits tax payables.

Contractual payables are classified as financial instruments and categorised as financial liabilities at amortised cost (refer to Note 1(j)). Statutory payables are recognised and measured similarly to contractual payables, but are not classified as financial instruments and not included in the category of financial liabilities at amortised cost, because they do not arise from a contract.

Borrowings

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

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

Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, 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 (LSL) for services rendered to the reporting date.

(i) Wages and salaries, and annual leave

Liabilities for wages and salaries and annual leave are recognised in the provision for employee benefits as 'current liabilities', because VAGO does not have an unconditional right to defer settlements of these liabilities.

Depending on the expectation of the timing of settlement, liabilities for wages and salaries, and annual leave, are measured at:

- nominal value if VAGO expects to wholly settle within 12 months; or
- present value if VAGO does not expect to wholly settle within 12 months.

(ii) Long service leave

Liability for LSL is recognised in the provision for employee benefits.

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

The components of this current LSL liability are measured at:

- nominal value – if VAGO expects to wholly settle within 12 months; and
- present value – if VAGO does not expect to wholly settle within 12 months.

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

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

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

(iii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee decides to accept an offer of benefits in exchange for the termination of employment. 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 ending on the balance sheet date and payable within the next financial year, are classified as a current liability in the balance sheet.

On-costs related to employee expenses

On-costs such as payroll tax, workers' compensation and superannuation are recognised separately from the provision for employee benefits.

Operating lease contracts

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

(n) Leases

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

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and rewards incidental to ownership. Leases of property, plant and equipment are classified as finance 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.

Notes to financial statements

Note 1. Summary of significant accounting policies (continued)

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 accounted for as a non-financial physical asset. If there is certainty that VAGO will obtain the ownership of the lease asset by the end of the lease term, the asset shall be depreciated over the useful life of the asset. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life.

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.

All incentives for the agreement of a new or renewed operating lease are recognised as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the incentive's nature or form or the timing of payments.

In the event that lease incentives are received to enter into operating leases, the aggregate cost of incentives are recognised as a reduction of rental expense over the lease term on a straight line basis, unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(o) Equity

Contributions by owners

Consistent with the requirements of AASB 1004 *Contributions,* contributions by owners (that is, contributed capital and its repayment) are treated as equity transactions and, therefore, do not form part of the income and expenses of VAGO.

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 to or distributions by owners have also been designated as contributions by owners.

(p) 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 *Commitments for expenditure*) at their nominal value and inclusive of the Goods and Services Tax (GST) payable.

In addition, where it is considered appropriate and provides additional relevant information to users, the net present values of significant individual projects are stated. These future expenditures cease to be disclosed as commitments once the related liabilities are recognised in the balance sheet.

(q) 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 *Contingent assets and contingent liabilities*) and, if quantifiable, are measured at nominal value. Contingent assets and liabilities are presented inclusive of GST receivable or payable respectively.

(r) Accounting for the Goods and Services Tax (GST)

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

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

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

Commitments and contingent assets and liabilities are also stated inclusive of GST (refer to Note 1(p) and Note 1(q)).

(s) Foreign currency transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction.

(t) 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 between the end of the reporting period and the date when the financial statements are authorised for issue, where those events provide information about conditions which existed at the reporting date. Note disclosure is made about events between the 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 that are considered to be of material interest.

(u) Australian Accounting Standards issued that are not yet effective

Certain new Australian Accounting Standards (AAS) have been published that are not mandatory for the 30 June 2016 reporting period. VAGO has assessed their applicability and potential for early adoption and has chosen not to early adopt these standards.

Notes to financial statements

Note 1. Summary of significant accounting policies (continued)

Standard/Interpretation	*Summary*	*Applicable for annual reporting periods beginning on*	*Impact on VAGO financial statements*
AASB 15 *Revenue from Contracts with Customers*	The core principle of AASB 15 requires an entity to recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to a customer.	1/01/2018	The changes in revenue recognition requirements in AASB 15 may result in changes to the timing and amount of revenue recorded in the financial statements. The Standard will also require additional disclosures on service revenue and contract modifications.
AASB 2014-5 *Amendments to Australian Accounting Standards arising from AASB 15*	Amends the measurement of trade receivables and the recognition of dividends. Trade receivables, that do not have a significant financing component, are to be measured at their transaction price, at initial recognition. Dividends are recognised in the profit and loss only when: • the entity's right to receive payment of the dividend is established; • it is probable that the economic benefits associated with the dividend will flow to the entity; and • the amount can be measured reliably.	1/01/2017, except amendments to AASB 9 (Dec 2009) and AASB 9 (Dec 2010) apply from 1/01/2018	The assessment has indicated that there will be no significant impact for the public sector.
AASB 2015-8 *Amendments to Australian Accounting Standards – Effective Date of AASB 15*	This Standard defers the mandatory effective date of AASB 15 from 1 January 2017 to 1 January 2018.	1/01/2018	This amending standard will defer the application period of AASB 15 to the 2018-19 reporting period in accordance with the transition requirements.

Standard/Interpretation	*Summary*	*Applicable for annual reporting periods beginning on*	*Impact on VAGO financial statements*
AASB 2016-3 *Amendments to Australian Accounting Standards – Clarifications to AASB 15*	• This Standard amends AASB 15 to clarify the requirements on identifying performance obligations, principal versus agent considerations and the timing of recognising revenue from granting a licence. The amendments require: • A promise to transfer to a customer a good or service that is 'distinct' to be recognised as a separate performance obligation; • For items purchased online, the entity is a principal if it obtains control of the good or service prior to transferring to the customer; and • For licences identified as being distinct from other goods or services in a contract, entities need to determine whether the licence transfers to the customer over time (right to use) or at a point in time (right to access).	1/01/2018	The assessment has indicated that there will be no significant impact for the public sector, other than the impact identified in AASB 15.
AASB 16 *Leases*	The key changes introduced by AASB 16 include the recognition of most operating leases (which are currently not recognised) on balance sheet.	1/01/2019	The assessment has indicated that as most operating leases will come on balance sheet, recognition of lease assets and lease liabilities will cause net debt to increase. Depreciation of lease assets and interest on lease liabilities will be recognised in the income statement with marginal impact on the operating surplus. The amounts of cash paid for the principal portion of the lease liability will be presented within financing activities and the amounts paid for the interest portion will be presented within operating activities in the cash flow statement.

Notes to financial statements

Note 1. Summary of significant accounting policies (continued)

Standard/Interpretation	*Summary*	*Applicable for annual reporting periods beginning on*	*Impact on VAGO financial statements*
AASB 2014-4 *Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation* [AASB 116 & AASB 138]	Amends AASB 116 Property, Plant and Equipment and AASB 138 Intangible Assets to: • establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset; • prohibit the use of revenue-based methods to calculate the depreciation or amortisation of an asset, tangible or intangible, because revenue generally reflects the pattern of economic benefits that are generated from operating the business, rather than the consumption through the use of the asset.	1/01/2016	The assessment has indicated that there is no expected impact as the revenue-based method is not used for depreciation and amortisation.
AASB 2015-6 *Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities* [AASB 10, AASB 124 & AASB 1049]	The Amendments extend the scope of *AASB 124 Related Party Disclosures* to not-for-profit public sector entities.	1/07/2016	The amending standard will result in extended disclosures on VAGO's key management personnel (KMP), and the related party transactions.
AASB 2016-4 *Amendments to Australian Accounting Standards – Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-for-Profit Entities*	The standard amends AASB 136 *Impairment of Assets* to remove references to using depreciated replacement cost (DRC) as a measure of value in use for not-for-profit entities.	1/01/2017	The assessment has indicated that there is minimal impact. Given the specialised nature and restrictions of public sector assets, the existing use is presumed to be the highest and best use (HBU), hence current replacement cost under AASB 13 *Fair Value Measurement* is the same as the depreciated replacement cost concept under AASB 136.

Note 2. Departmental (controlled) outputs

Output groups—VAGO has 2 output groups:

(1) Parliamentary reports and services

VAGO informs Parliament, its primary client, of the results of its work through its reports.

The reports provide Parliament with independent assurance on the adequacy of accountability and resource management practices in the public sector and include:

- performance audits, that focus on the effectiveness, efficiency and economy of publicly funded activities, or probity and compliance;
- an annual assessment of the state's finances;
- reports of results from the financial statement audits conducted during the year;
- management letters to audited agencies conveying matters for improvement identified during audits.

VAGO also tables the Auditor-General's Annual Plan and the VAGO Annual Report to inform Parliament of its planned activity and actual performance respectively.

(2) Audit reports on financial statements

A core statutory responsibility of the Auditor-General is to undertake an annual audit of the financial statements, and in some cases other statements (such as performance statements), of public authorities, including departments and municipal councils and of the State of Victoria, and to issue an audit opinion on whether the financial statements, and other statements where applicable, are fairly presented.

The main products from this output group are:

- audit reports on the financial statements of public sector authorities, including departments and municipal councils, and on the State's Annual Financial Report
- audit reports on performance statements prepared by local government, certain water bodies, and technical and further education institutes
- management letters issued to audited authorities conveying matters for improvement and other findings identified during audits
- a negative assurance report on the review of the General Government Sector's Estimated Financial Statements for inclusion in the State's annual budget papers presented to Parliament.

Other products include the examination and certification by the Auditor-General of warrants authorising the expenditure of public funds by government. The preparation of warrants in Victoria is required under the provisions of the *Constitution Act 1975* and the *Financial Management Act 1994*. Warrants provide the legislative authority for the Treasurer to issue funding in accordance with the relevant parliamentary authority and must be signed by the Auditor-General and approved by the Governor.

Another product from this output group comprises the audit of acquittal statements for the receipt and expenditure of Commonwealth-funded activities or capital works. These audits are undertaken in accordance with the requirements of the relevant funding agreement.

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.

Notes to financial statements

Note 2. Departmental (controlled) outputs (continued)

Controlled income and expenses for the year ended 30 June 2016

	Parliamentary reports and services		Audit reports on financial statements		Total	
	2015–16 $'000	2014–15 $'000	**2015–16 $'000**	2014–15 $'000	**2015–16 $'000**	2014–15 $'000
Income from transactions						
Output appropriations	**15,789**	15,404	**24,732**	23,536	**40,521**	38,940
Special appropriations	**288**	277	**288**	264	**576**	541
Sale of goods and services	**144**	140	**109**	42	**253**	182
Fair value of services received free of charge or for nominal consideration	**18**	19	**15**	16	**33**	35
Total income from transactions	**16,239**	15,840	**25,144**	23,858	**41,383**	39,698
Expenses from transactions						
Employee expenses	**11,484**	12,718	**12,232**	10,520	**23,715**	23,238
Depreciation and amortisation	**361**	421	**296**	344	**657**	765
Interest expense	**9**	19	**6**	14	**15**	33
Capital asset charge	**66**	64	**54**	53	**120**	117
Fair value of services provided free of charge or for nominal consideration	**-**	75	**-**	-	**-**	75
Contract audit services *(i)*	**540**	449	**11,354**	9,997	**11,893**	10,446
Rental expenses – accommodation	**836**	833	**684**	681	**1,520**	1,514
Recruitment and training	**319**	286	**315**	245	**634**	531
Other operating expenses	**1,502**	1,311	**1,171**	1,048	**2,673**	2,358
Total expenses from transactions	**15,116**	16,176	**26,112**	22,901	**41,228**	39,077
Net result from transactions (net operating balance)	**1,123**	(336)	**(968)**	957	**155**	621
Other economic flows included in net result						
Net gain / (loss) on non-financial assets	**13**	(5)	**11**	(4)	**24**	(10)
Other gains / (losses) from other economic flows	**(49)**	(40)	**(48)**	(35)	**(96)**	(75)
Total other economic flows included in net result	**(35)**	(45)	**(37)**	(39)	**(72)**	(84)
Net result	**1,088**	(381)	**(1,005)**	918	**83**	537
Comprehensive result	**1,088**	(381)	**(1,005)**	918	**83**	537

(i) The increase in contract audit services expenses from 2014-15 to 2015-16 was due to two main factors. Firstly, there were additional payments to audit contractors for the audit of changed local government performance statements. Secondly, there were additional payments to audit contractors relating to the changed timing of the conduct of the relevant financial audits. These additional payments are offset by additional section 29 appropriation revenue, and therefore did not affect our net result.

Controlled assets and liabilities as at 30 June 2016

	Parliamentary reports and services		Audit reports on financial statements		Total	
	2015–16 $'000	2014–15 $'000	**2015–16 $'000**	2014–15 $'000	**2015–16 $'000**	2014–15 $'000
Assets						
Financial assets	**6,223**	6,221	**10,739**	8,798	**16,962**	15,019
Non-financial assets	**508**	747	**877**	1,056	**1,386**	1,802
Total assets	**6,731**	6,968	**11,616**	9,854	**18,348**	16,822
Liabilities						
Total liabilities	**3,542**	3,401	**6,112**	4,810	**9,654**	8,211
Net assets	**3,189**	3,567	**5,504**	5,044	**8,694**	8,611

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 or manages other activities and 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.

	2015–16 $'000	2014–15 $'000
Administered income from transactions		
Sales of services	**24,854**	23,536
Miscellaneous income	**-**	1
Total administered income from transactions	**24,854**	23,537
Administered expenses from transactions		
Doubtful debts expense	**122**	-
Payments into the Consolidated Fund	**24,732**	23,537
Total administered expenses from transactions	**24,854**	23,537
Total administered net result from transactions (net operating balance)	**-**	-
Administered other economic flows included in administered net result		
Net gain / (loss) on non-financial assets	**-**	-
Total administered other economic flows	**-**	-
Administered net result	**-**	-
Total administered comprehensive result	**-**	-

	2015–16 $'000	2014–15 $'000
Administered financial assets		
Receivables *(i)*	**2,563**	2,385
Provision for doubtful receivables *(ii)*	**(122)**	-
Total administered financial assets	**2,441**	2,385
Administered non-financial assets		
Work in progress *(iii)*	**3,146**	3,619
Total administered non-financial assets	**3,146**	3,619
Total administered assets	**5,587**	6,004
Administered liabilities		
Amounts owing to the state	**5,587**	6,004
Total administered liabilities	**5,587**	6,004
Total administered net assets	**-**	-

Notes to financial statements

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

	2015–16 $'000	2014–15 $'000
(i) Receivables comprise debtors falling due as follows:		
Current	***2,180***	*2,182*
Overdue between 30 to 60 days	***173***	*192*
Overdue beyond 60 days	***210***	*11*
	2,563	*2,385*

Of the receivables overdue more than 30 days, $122,000 (2014-15: $Nil) has been provided against (see Note (ii) below). A further $82,000 (2014-15: $162,000) had been collected at the date of signing of the financial statements.

(ii) *The provision for doubtful receivables relates to a receivable which has been outstanding for one year.*

(iii) *Work in progress is stated net of an estimate of the amount of financial audit fee revenue deemed to be not a reasonable cost of the audit. At the balance sheet date, this estimate was $1,583,000 (2014-15: $Nil). This was due to an overestimation of the hourly rates of staff which are built into the internal pricing mechanism.*

Note 4. Income from transactions

		2015–16 $'000	2014–15 $'000
(a)	**Output appropriations *(i)***		
	Annual appropriation for the provision of outputs	**15,789**	15,404
	Appropriation under s29 *FMA 1994*	**24,732**	23,536
	Total output appropriations	**40,521**	38,940
(b)	**Special appropriations *(i)***		
	Appropriation under s94A(6) of the *Constitution Act 1975*	**576**	541
	Total special appropriations	**576**	541
(c)	**Sale of goods and services**		
	Sales of goods *(ii)*	**26**	34
	Rendering of services *(iii)*	**227**	148
	Total sale of goods and services	**253**	182
(d)	**Fair value of services received free of charge or for nominal consideration**		
	Services *(iv)*	**33**	35
	Total fair value of services received free of charge or for nominal consideration	**33**	35

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

(ii) *This revenue stream arises principally 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. The basis for cost recovery is determined by the terms of the various secondments.*

(iv) *This represents the cost of the external audit of VAGO. Refer to Note 23.*

Note 5. Expenses from transactions

		2015–16 $'000	2014–15 $'000
(a)	**Employee expenses**		
	Post employment benefits:		
	Defined contribution superannuation expense	**1,666**	1,597
	Defined benefit superannuation expense	**103**	139
	Termination benefits	**198**	222
	Salaries and wages, annual leave and long service leave	**21,748**	21,280
	Total employee expenses	**23,715**	23,238
(b)	**Depreciation and amortisation**		
	Depreciation of non-current assets:		
	Furniture and fittings	**2**	2
	Computer software	**57**	62
	Computer hardware	**135**	186
	Office equipment	**13**	14
	Total depreciation of non-current assets	**206**	264
	Amortisation of non-current assets:		
	Leasehold improvements	**349**	349
	Intangible produced assets	**30**	81
	Motor vehicles – leased	**72**	72
	Total amortisation of non-current assets	**451**	501
	Total depreciation and amortisation	**657**	765
(c)	**Interest expense**		
	Interest on finance leases	**-**	13
	Unwinding of discount on make-good provision	**15**	20
	Total interest expense	**15**	33
(d)	**Other operating expenses**		
	Information technology	**597**	613
	Information management	**208**	251
	Consultants	**72**	37
	Legal expenses	**75**	15
	Auditors' remuneration	**33**	35
	Motor vehicles	**247**	278
	Contractors	**486**	315
	Internal audit	**268**	118
	Travel	**238**	243
	Other office expenses	**449**	454
	Total other operating expenses	**2,673**	2,358

Notes to financial statements

Note 6. Other economic flows included in net result

		2015–16 $'000	2014–15 $'000
(a)	**Net gain / (loss) on non-financial assets**		
	Net gain / (loss) on disposal of property, plant and equipment	**24**	(10)
	Total net gain / (loss) on non-financial assets	**24**	(10)
(b)	**Other gains / (losses) from other economic flows**		
	Net gain / (loss) arising from revaluation of long service liability *(i)*	**(96)**	(75)
	Total other gains / (losses) from other economic flows	**(96)**	(75)

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

Note 7. Receivables

	2015–16 $'000	2014–15 $'000
Current receivables		
Contractual		
Other receivables *(i)*	**43**	54
Statutory		
Amounts due from Victorian Government *(ii) (iii)*	**8,874**	6,988
GST input tax credit recoverable	**128**	-
Total current receivables	**9,045**	7,042
Non-current receivables		
Statutory		
Amounts due from Victorian Government *(ii) (iii)*	**7,916**	7,976
Total non-current receivables	**7,916**	7,976
Total receivables	**16,961**	15,018

(i) *Other receivables comprises recoup of expenses of production of reports, and a receivable relating to a WorkCover claim.*

(ii) *The total amount recognised as being due from the Victorian Government was $16,789,000 (2014–15: $14,964,000) of which $8,874,000 (2014–15: $6,988,000) 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.

(c) Provision for doubtful contractual receivables

No provision for doubtful contractual receivables has been made, as VAGO considers that there is no objective evidence of impairment of those receivables, either in the current year 2015-16 or the previous year 2014-15.

Note 8. Property, plant and equipment

(a) Carrying amounts *(i)*

	2015–16 $'000	2014–15 $'000
Class of asset *(ii)*		
Leasehold improvements at fair value	**277**	626
Furniture and fittings at fair value	**4**	6
Computer software at fair value	**1**	58
Computer hardware at fair value	**203**	315
Office equipment at fair value	**35**	40
Motor vehicles – leased, at fair value	**290**	195
Net carrying amount of property, plant and equipment	**810**	1,240

(i) *FRD103F 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'.*

(ii) *Fair value assessments have been performed for all classes of assets in this purpose group. Fair value has been determined using the assets' depreciated replacement cost. The assessment has determined that movements from the carrying amount were insignificant, not necessitating a full revaluation.*

(b) Gross carrying amount and accumulated amortisation and depreciation

	2015–16 $'000	2014–15 $'000
Leasehold improvements at fair value		
Gross carrying amount	**2,390**	2,390
Less: Accumulated amortisation	**(2,113)**	(1,765)
Net carrying amount	**277**	626
Furniture and fittings at fair value		
Gross carrying amount	**108**	108
Less: Accumulated depreciation	**(104)**	(102)
Net carrying amount	**4**	6
Computer software at fair value		
Gross carrying amount	**267**	267
Less: Accumulated depreciation	**(265)**	(209)
Net carrying amount	**1**	58
Computer hardware at fair value		
Gross carrying amount	**1,643**	1,620
Less: Accumulated depreciation	**(1,440)**	(1,305)
Net carrying amount	**203**	315
Office equipment at fair value		
Gross carrying amount	**168**	161
Less: Accumulated depreciation	**(133)**	(120)
Net carrying amount	**35**	40
Motor vehicles – leased, at fair value		
Gross carrying amount	**355**	322
Less: Accumulated amortisation	**(65)**	(127)
Net carrying amount	**290**	195
Total net carrying amount	**810**	1,240

Notes to financial statements

Note 8. Property, plant and equipment (continued)

(c) Movements in carrying amounts

	Leasehold improvements	Furniture and fittings	Computer software	Computer hardware	Office equipment	Motor vehicles – leased	TOTAL
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2014	974	7	120	390	53	240	1,785
Additions	-	1	-	111	1	40	153
Disposals	-	-	-	-	-	(14)	(14)
Depreciation / amortisation expense	(349)	(2)	(62)	(186)	(14)	(72)	(684)
Balance at 30 June 2015	626	6	58	315	40	195	1,240
Additions	**-**	**-**	**-**	**23**	**7**	**278**	**308**
Disposals	**-**	**-**	**-**	**-**	**-**	**(111)**	**(111)**
Depreciation / amortisation expense	**(349)**	**(2)**	**(57)**	**(135)**	**(13)**	**(72)**	**(627)**
Balance at 30 June 2016	**277**	**4**	**1**	**203**	**35**	**290**	**810**

The following useful lives of assets are used in the calculation of depreciation and amortisation for current and prior years:

Leasehold improvements	2–10 years
Furniture and fittings	10 years
Computer software	3 years
Computer hardware	4 years
Office equipment	5 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.

(d) Fair value measurement hierarchy for assets as at 30 June 2016

As noted in Note 8(a)(ii), fair value assessments have been performed for all classes of assets, on the basis of their depreciated

All property, plant and equipment is classified as Level 3 in the fair value hierarchy. See Note 1(b) for a description of the fair value hierarchy. There have been no transfers between levels during the period.

For all assets measured at fair value, the current use is considered the highest and best use.

Note 8. Property, plant and equipment (continued)

(e) Reconciliation of Level 3 fair value

	Property, plant and equipment	
	2015–16	2014–15
	$'000	$'000
Balance at 1 July 2015	**1,240**	1,785
Purchases	**308**	153
Sales	**(111)**	(14)
Gains or losses recognised in net result	**-**	-
Depreciations and amortisations	**(627)**	(684)
Balance at 30 June 2016	**810**	1,240

(f) Description of significant unobservable inputs to Level 3 valuations for 2016 and 2015

2016 and 2015	*Valuation technique* (i)	*Significant unobservable inputs* (i)
Leasehold improvements	Depreciated replacement cost	Depreciated replacement cost per unit Useful life of leasehold improvements
Other property, plant and equipment	Depreciated replacement cost	Depreciated replacement cost per unit Useful life of other property, plant and equipment

(i) *Please note that AASB 2015-7* Fair Value Disclosures of Not-for-Profit Public Sector Entities*, which is operative from 1 July 2016 provides an exemption for not-for-profit public sector entities from disclosing data relating to the quantitative information of 'significant unobservable inputs' and the 'sensitivity analysis' if the assets are held primarily for their current service potential rather than to generate net cash inflows. Please note that the State early-adopted AASB 2015-7 in the 2014-15 reporting period and gave not-for-profit entities the option to early adopt this amending standard last year. As a result, all not-for-profit entities must now comply with this amending standard for the current financial year.*

The significant unobservable inputs remain unchanged from 2015.

Notes to financial statements

Note 9. Intangible assets

(a) Cost and accumulated amortisation

	2015–16 $'000	2014–15 $'000
Intangible assets		
At cost	**1,737**	1,664
Less: Accumulated amortisation	**(1,643)**	(1,613)
Total intangible assets	**94**	51

(b) Movements in intangible assets

	Computer software $'000	TOTAL $'000
Carrying amount		
Balance at 1 July 2014	**98**	98
Additions	**34**	34
Amortisation expense *(i)*	**(81)**	(81)
Balance at 30 June 2015	**51**	51
Additions	**73**	**73**
Amortisation expense *(i)*	**(30)**	**(30)**
Balance at 30 June 2016	**94**	**94**

(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 for current and prior years:

Intangible assets – Computer software	3 years

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

Note 10. Prepayments and accrued income

	2015–16 $'000	2014–15 $'000
Current prepayments and accrued income		
Information management	**11**	24
Software and hardware maintenance contracts	**189**	191
Rental expense – accommodation	**143**	139
Recruitment and training	**45**	37
Insurance	**21**	-
Accrued income - salaries of secondees	**-**	64
Other	**73**	52
Total current prepayments and accrued income	**481**	508
Non-current prepayments		
Information management	**-**	1
Software and hardware maintenance contracts	**-**	2
Total non-current prepayments	**-**	3
Total prepayments and accrued income	**481**	511

Note 11. Payables

	2015–16 $'000	2014–15 $'000
Current payables		
Contractual		
Supplies and services *(i)*	**1,704**	937
Amounts payable to government and agencies *(ii)*	**34**	14
Other payables *(iii)*	**302**	184
	2,040	1,135
Statutory		
PAYG payable	**-**	192
FBT payable	**11**	89
GST payable	**-**	14
Payroll tax payable	**79**	89
Total current payables	**2,130**	1,519

(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.*

(iii) *The comparative figure for 2014-15 now excludes an amount of $121,000 in respect of performance incentive payments. This is now classified and disclosed as a provision in Note 13.*

(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

	2015–16 $'000	2014–15 $'000
Current borrowings		
Finance lease liabilities *(i)* (Note 15(a))	**80**	135
Total current borrowings	**80**	135
Non-current borrowings		
Finance lease liabilities *(i)* (Note 15(a))	**212**	62
Total non-current borrowings	**212**	62
Total borrowings	**292**	197

(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.

Notes to financial statements

Note 13. Provisions

	2015–16 $'000	2014–15 $'000
Current provisions		
Employee benefits *(i)* (Note 13(a))		
Annual leave (Note 13(a)):		
– Unconditional and expected to settle within 12 months *(ii)*	1,328	1,153
– Unconditional and expected to settle after 12 months *(iii)*	551	381
Long service leave (Note 13(a)):		
– Unconditional and expected to settle within 12 months *(ii)*	371	314
– Unconditional and expected to settle after 12 months *(iii)*	2,626	2,365
Performance incentive entitlements (Note 13(a)):		
– Unconditional and expected to settle within 12 months *(ii) (vi)*	337	313
	5,214	4,526
Provisions for on-costs (Note 13(a) and Note 13(b)):		
– Unconditional and expected to settle within 12 months *(ii)*	259	226
– Unconditional and expected to settle after 12 months *(iii)*	487	427
	746	653
Lease contracts *(iv)* (Note 13(b) and Note 16)	143	156
Make-good provision *(v)* (Note 13(b))	561	-
Total current provisions	6,664	5,334
Non-current provisions		
Employee benefits: *(i)* (Note 13(a)) – long service leave	492	409
On-costs (Note 13(a) and Note 13(b)):	76	64
Lease contracts *(iv)* (Note 13(b) and Note 16)	-	143
Make-good provision *(v)* (Note 13(b))	-	545
Total non-current provisions	568	1,161
Total provisions	7,232	6,495

(a) Employee benefits and on-costs *(i)(vi)*

	2015–16 $'000	2014–15 $'000
Current employee benefits		
Annual leave entitlements	1,880	1,534
Long service leave entitlements	2,997	2,679
Performance incentive entitlements *(vi)*	337	313
	5,214	4,526
Non-current employee benefits		
Long service leave entitlements	492	409
Total employee benefits	5,706	4,934
On-costs		
Current on-costs	746	653
Non-current on-costs	76	64
Total on-costs	822	716
Total employee benefits and on-costs	6,528	5,651

(i) *Provisions for employee benefits consist of amounts for annual leave and long service leave accrued by employees, and assuming wage inflation of 4.12% per annum (2014-15: 4.44%) and discount rate of 1.99% (2014-15: 3.03%), each as advised by the Department of Treasury and Finance. On-costs such as payroll tax and workers' compensation insurance are not employee benefits and are recognised as a separate provision.*

(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.*

(vi) *The comparative figure for 2014–15 includes an amount of $121,000 which was previously classified as 'other payables' in Note 11. It represents an estimate of the performance incentive entitlements payable to non-executive staff.*

(b) Movement in provisions

	On-costs	Lease contracts	Make-good	Total
	2015–16	2015–16	2015–16	2015–16
	$'000	$'000	$'000	$'000
Opening balance	716	299	545	1,561
Additional provisions recognised	105	-	15	121
Provisions released	-	(156)	-	(156)
Closing balance	822	143	561	1,526
Current	746	143	561	1,450
Non-current	76	-	-	76
	822	143	561	1,526

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	
	2015–16	2014–15	**2015–16**	2014–15
	$'000	$'000	**$'000**	$'000
Defined benefit plans *(i)*:				
State Superannuation Fund – revised and new	**102**	139	**2**	1
Defined contribution plans:				
VicSuper	**1,111**	1,097	**16**	9
Other	**590**	540	**8**	4
Total	**1,803**	1,776	**26**	15

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

Notes to financial statements

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	
	2015–16	2014–15	**2015–16**	2014–15
	$'000	$'000	**$'000**	$'000
Finance lease liabilities payable				
Not longer than one year	**90**	140	**88**	137
Longer than one year and not longer than five years	**221**	64	**204**	59
Longer than five years	**-**	-	**-**	-
Minimum future lease payments	**311**	204	**292**	197
Less future finance charges	**(19)**	(7)	**-**	-
Present value of minimum lease payments	**292**	197	**292**	197
Included in the financial statements as:				
Current borrowings lease liabilities (Note 12)	**80**	135		
Non-current borrowings lease liabilities (Note 12)	**212**	62		
Total interest-bearing liabilities	**292**	197		

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

(b) Operating leases

Refer to Note 16.

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:

	2015–16	2014–15
	$'000	$'000
Commitments payable *(i)*		
Non-cancellable operating lease commitments		
Less than 1 year	**1,423**	1,850
Longer than 1 year but not longer than 5 years	**-**	1,424
5 years or more	**-**	-
Total non-cancellable operating lease commitments	**1,423**	3,274
Contract commitments payable		
Less than 1 year	**4,469**	10,148
Longer than 1 year but not longer than 5 years	**712**	2,922
5 years or more	**-**	-
Total contract audit commitments	**5,181**	13,070
Total commitments for expenditure (inclusive of GST)	**6,604**	16,344
Less GST recoverable from the Australian Taxation Office	**(600)**	(1,486)
Total commitments for expenditure (exclusive of GST)	**6,003**	14,858

(i) For future finance lease payments that are recognised on the balance sheet, refer to Note 15 Leases.

(ii) 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.

Note 17. Contingent assets and contingent liabilities

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

Notes to financial statements

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 and financial liability 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

	2015–16 $'000	2014–15 $'000
Contractual financial assets - receivables		
Cash	**1**	1
Receivables: *(i)*		
Other receivables	**43**	54
Total contractual financial assets	**44**	55
Contractual financial liabilities at amortised cost		
Payables: *(i)*		
Supplies and services	**1,704**	937
Amounts payable to government and agencies	**34**	14
Other payables	**302**	184
Borrowings:		
Finance lease liabilities	**292**	197
Total contractual financial liabilities	**2,332**	1,332

(i) The total amounts disclosed here exclude statutory amounts (e.g. amounts owing from Victorian Government (2015-16: $16,789,000, 2014–15: $14,964,000) and taxes payable (2015-16: $90,000, 2014–15: $383,000)). 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

	2015–16 $'000	2014–15 $'000
Contractual financial liabilities		
Financial liabilities at amortised cost:		
Interest on finance leases	**-**	(13)
Total contractual financial liabilities	**-**	(13)

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

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

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

(b) Credit risk

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

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
2015–16	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Receivables *(i)*:						
Other receivables	**43**	**43**	**-**	**-**	**-**	**-**
Total	**43**	**43**	**-**	**-**	**-**	**-**
2014–15						
Receivables *(i)*:						
Other receivables	54	54	-	-	-	-
Total	54	54	-	-	-	-

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

(c) Liquidity risk

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

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

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

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

Notes to financial statements

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
2015–16	$'000	$'000	$'000	$'000	$'000	$'000
Payables *(ii)*:						
Supplies and services	**1,704**	**1,556**	**1,556**	**-**	**-**	**-**
Amounts payable to government and agencies	**34**	**34**	**34**	**-**	**-**	**-**
Other payables	**302**	**302**	**302**	**-**	**-**	**-**
Borrowings:						
Finance lease liabilities	**292**	**311**	**7**	**13**	**70**	**221**
	2,332	**2,203**	**1,898**	**13**	**70**	**221**
2014–15						
Payables *(ii)*:						
Supplies and services	937	937	937	-	-	-
Amounts payable to government and agencies	14	14	14	-	-	-
Other payables	184	184	184	-	-	-
Borrowings:						
Finance lease liabilities	197	204	20	38	83	64
	1,332	1,340	1,155	38	83	64

(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 finance lease liabilities are fixed rate.

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
2015–16		$'000	$'000	$'000	$'000
Financial assets					
Cash	**-**	**1**	**-**	**-**	**1**
Receivables *(i)* :					
Other receivables	**-**	**43**	**-**	**-**	**43**
Total financial assets		**44**	**-**	**-**	**44**
Financial liabilities					
Payables *(i)* :					
Supplies and services	**-**	**1,704**	**-**	**-**	**1,704**
Amounts payable to government and agencies	**-**	**34**	**-**	**-**	**34**
Other payables	**-**	**302**	**-**	**-**	**302**
Borrowings:					
Finance lease liabilities	**4.06%**	**292**	**292**	**-**	**-**
Total financial liabilities		**2,332**	**292**	**-**	**2,040**
2014–15					
Financial assets					
Cash	-	1	-	-	1
Receivables *(i)* :					
Other receivables	-	54	-	-	54
Total financial assets		55	-	-	55
Financial liabilities					
Payables *(i)* :					
Supplies and services	-	937	-	-	937
Amounts payable to government and agencies	-	14	-	-	14
Other payables	-	184	-	-	184
Borrowings:					
Finance lease liabilities	5.10%	197	197	-	-
Total financial liabilities		1,332	197	-	1,135

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

(e) Fair value

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

Note 19. Cash flow information

(a) Reconciliation of cash

	2015–16 $'000	2014–15 $'000
Total cash disclosed in the balance sheet *(i)*	**1**	1
Balance as per cash flow statement	**1**	1

(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 unpresented cheques at the end of the reporting period.

At 30 June 2016, cash at bank included the amount of a notional shortfall for the payment of unpresented cheques of $1,000 (30 June 2015: $Nil).

(b) Reconciliation of net result for the period

	2015–16 $'000	2014–15 $'000
Net result for the period	**83**	537
Non-cash movements:		
(Gain) / loss on disposal of non-current assets	**(24)**	10
Depreciation and amortisation of non-current assets	**657**	765
Movements in assets and liabilities:		
(Increase) / decrease in receivables	**(1,942)**	(1,054)
(Increase) / decrease in prepayments	**30**	(68)
Increase / (decrease) in payables	**612**	(672)
Increase / (decrease) in provisions	**736**	711
Net cash flows from / (used in) operating activities	**151**	229

Notes to financial statements

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. Administered transactions are those that are undertaken on behalf of the state over which VAGO has no control or discretion.

	Appropriation Act						*Financial Management Act 1994*									
	Annual appropriation		Advance from Treasurer		Section3(2)		Section 29		Section 32		Total Parliamentary authority		Appropriations applied		Variance	
	2015–16 $'000	2014–15 $'000	**2015–16 $'000**	2014–15 $'000	**2015–16 $'000**	2014–15 $'000	**2015–16 $'000**	2014–15 $'000	**2015–16 $'000**	2014–15 $'000	**2015–16 $'000**	2014–15 $'000	**2015–16 $'000**	2014–15 $'000	**2015–16 $'000**	2014–15 $'000
Controlled																
Provision for outputs *(i)*	**15,789**	15,404	**-**	-	**-**	-	**24,732**	23,536	**-**	-	**40,521**	38,940	**40,521**	38,940	**-**	-
Additions to net assets	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Total	**15,789**	15,404	**-**	-	**-**	-	**24,732**	23,536	**-**	-	**40,521**	38,940	**40,521**	38,940	**-**	-

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

Parliamentary appropriations

	2015–16 $'000	2014–15 $'000
Appropriation Act		
Annual appropriation	**15,789**	15,404
	15,789	15,404
Financial Management Act 1994		
Section 29 – estimate *(i)*	**23,500**	23,400
Plus: variance from estimate *(ii)*	**1,232**	136
	24,732	23,536
Total Parliamentary Authority	**40,521**	38,940
Appropriations applied	**40,521**	38,940
Variance	**-**	-

(i) $42 304 of the section 29 Appropriation drawn down in 2014-15 was applied against the costs associated with the Auditor-General (please refer to Note 20(b)).

(ii) The variance from estimate in 2015-16 was due to higher than expected fee recovery from audit service providers.

(b) Summary of compliance with special appropriations

Authority	Purpose	Appropriations applied 2015–16 $'000	2014–15 $'000
Section 94A(6) of the *Constitution Act 1975*	Costs associated with the Auditor-General *(i)*	**576**	541

(i) In 2014-15, the total costs associated with the Auditor-General were $583,000. VAGO applied $42,000 of the costs against its section 29 appropriation for the provision of outputs. This was due to the requirement to provide for a Fringe Benefits Tax event, which was not foreseen at the time of finalising the original warrant for special appropriation.

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:

- J Doyle, Auditor-General (1 July 2015 to 22 September 2015)
- P Frost (Acting, for 270 days during the period 1 July 2015 to 30 June 2016)
- C Sheard (Acting, for 12 days during the period 1 July 2015 to 30 June 2016)

(b) Remuneration

Total remuneration received or receivable by the substantive and acting Accountable Officers in connection with the responsibilities of the position during the reporting period was in the following ranges:

	2015–16 No.	2014–15 No.
$510,000 – $519,999 (substantive)	**-**	1
$390,000 – $399,999 (acting)	**1**	-
$160,000 – $169,999 (substantive)	**1**	-
$100,000 – $109,999 (acting)	**-**	1
$10,000 – $19,999 (acting)	**1**	-

(c) Related party transactions

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

Notes to financial statements

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, termination payments and retirement benefits. The total annualised employee equivalent provides a measure of full time equivalent executive officers over the reporting period.

	Total remuneration		**Base remuneration**	
Income band	**2015–16**	2014–15	**2015–16**	2014–15
	No.	No.	**No.**	No.
$70,000 to $79,999	**-**	-	**-**	1
$90,000 to $99,999	**-**	-	**1**	-
$100,000 to $109,999	**2**	-	**2**	-
$110,000 to $119,999	**-**	-	**2**	-
$120,000 to $129,999	**3**	-	**-**	1
$130,000 to $139,999	**-**	1	**-**	2
$140,000 to $149,999	**-**	1	**-**	-
$150,000 to $159,999	**-**	3	**3**	6
$160,000 to $169,999	**2**	4	**1**	1
$170,000 to $179,999	**-**	3	**4**	6
$180,000 to $189,999	**6**	6	**1**	1
$190,000 to $199,999	**1**	-	**1**	-
$200,000 to $209,999	**1**	-	**-**	-
$210,000 to $219,999	**-**	-	**2**	2
$220,000 to $229,999	**2**	2	**1**	2
$230,000 to $239,999	**1**	2	**1**	1
$240,000 to $249,999	**1**	1	**2**	-
$250,000 to $259,999	**2**	-	**-**	1
$310,000 to $319,999	**-**	-	**-**	1
$330,000 to $339,999	**-**	1	**-**	-
$410,000 to $419,999	**-**	1	**-**	-
Total numbers	**21**	25	**21**	25
Total annualised employee equivalents *(i)*	**20.2**	24.4	**20.2**	24.4
Total amount	**$ 3,881,414**	$ 4,973,964	**$ 3,639,646**	$ 4,504,193

Remuneration of executive officers whose total remuneration was less than $100,000 during the reporting period:
Other than those executive officers whose remuneration is disclosed in the table above, there were 7 executive officers for whom remuneration disclosure is required whose remuneration was less than the reportable threshold of $100,000 (2 maternity leave, 3 appointments part way through the year, 2 departures). Their total remuneration was $511,292. In 2014-15, there was 1 executive officer whose total remuneration was less than $100,000. This officer was on secondment, and their total remuneration was $8,358.

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

Note 23. Remuneration of auditors

	2015–16 $'000	2014–15 $'000
Audit of the financial statements of VAGO:		
Nexia Melbourne Audit Pty Ltd	**33**	-
PKF Melbourne Audit & Assurance	**-**	35
	33	35

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 Geoff Parker from Nexia Melbourne Audit Pty Ltd was appointed to this position in 2016.

Nexia Melbourne Audit Pty Ltd 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 a financial audit service provider.

As the remuneration of the auditor is paid by the Public Accounts and Estimates Committee, the amount disclosed above is included in "fair value of services received free of charge or for nominal consideration" in the comprehensive operating statement (see Note 4(d)).

Note 24. Subsequent events

VAGO has no subsequent events to report.

Notes to financial statements

Note 25. Glossary of terms and style conventions

Glossary

Actuarial gains or losses on superannuation defined benefit plans
Actuarial gains or losses are changes in the present value of the superannuation defined benefit liability resulting from:
a) experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and
b) the effects of changes in actuarial assumptions.

Administered item
Administered item generally refers to VAGO lacking the capacity to benefit from that item in the pursuit of its objectives and to deny or regulate the access of others to that benefit.

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

Capital asset charge
A charge levied on the written down value of controlled non-current physical assets in a department's balance sheet which aims to: attribute to agency outputs the opportunity cost of capital used in service delivery; and provide incentives to departments to identify and dispose of underutilised or surplus assets in a timely manner.

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

Comprehensive result
The comprehensive result is the net result of all items of income and expense recognised for the period. It is the aggregate of operating result and other comprehensive income.

Controlled item
Controlled item generally refers to the capacity of VAGO to benefit from that item in the pursuit of its objectives and to deny or regulate the access of others to that benefit.

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'.

Effective interest method
The effective interest method is used to calculate the amortised cost of a financial asset or liability and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument, or, where appropriate, a shorter period.

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) 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

Financial instrument

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability 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 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.

Financial statements

Financial statements comprises:

a) a balance sheet as at the end of the period;
b) a comprehensive operating statement for the period;
c) a statement of changes in equity for the period;
d) a cash flow statement for the period;
e) notes, comprising a summary of significant accounting policies and other explanatory information;
f) comparative information in respect of the preceding period as specified in paragraph 38 of AASB 101 *Presentation of Financial Statements*; and
g) a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraph 41 of AASB 101.

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.

Notes to financial statements

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 economic flows - other comprehensive income'.

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 and accrued income.

Other economic flows included in net result
Other economic flows included in net result 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 form the revaluation of the long service leave liability.

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

Produced assets
Produced assets are non-financial assets that have come into existence as outputs of production processes. Produced assets include certain intangible assets, such as computer software.

Receivables
Receivables include amounts owing from government through appropriation receivable, short and long-term trade credit and accounts receivable, grants and taxes receivable.

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

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

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

Style conventions

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

The notation used in the tables is as follows:

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

The financial statements and notes are presented based on the illustration for a government department in the 2015–16 *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.