



Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2013–14

Tabled 16 October 2014



Background to the audit

- *Annual Financial Report of the State of Victoria 2013–14 (AFR)* sets out the state's financial transactions and financial position.
- Qualified audit opinion issued on 2 October 2014.
- An audit qualification means that the AFR isn't fairly presented in all material respects.
- Except for the effects of the audit qualification matters, Parliament and the public can have confidence in the AFR.



Qualified audit opinion

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Inappropriate accounting policy for valuing school buildings:

- \$1.58 billion economic obsolescence write down.
- Those schools continue to deliver educational outcomes for the citizens of Victoria.
- Seven out of every 10 Victorian schools were assessed as partly economically obsolete.
- Victoria is alone in its approach to this matter.



Qualified audit opinion – *continued*

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- Evidence not available to fully support appropriateness of DEECD's key valuation assumptions.
- The full audit qualification matters are set out in the audit opinion and discussed in our report.

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Implications of the accounting policy for schools

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\$1.58 billion write down of taxpayer investments in schools, which:

- recently received significant taxpayer funds through Commonwealth and state government funding programs
- are in current capital works programs or under public private partnership arrangements.

Estimated \$27–\$40 million less depreciation funding each year for the renewal of school buildings.

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The state's financial result

Net result from transactions

- State of Victoria—\$856.6 million surplus in 2013–14 (\$3.1 billion deficit in 2012–13).
- General government sector — \$2.0 billion surplus in 2013–14 (\$316.6 million deficit in 2012–13).

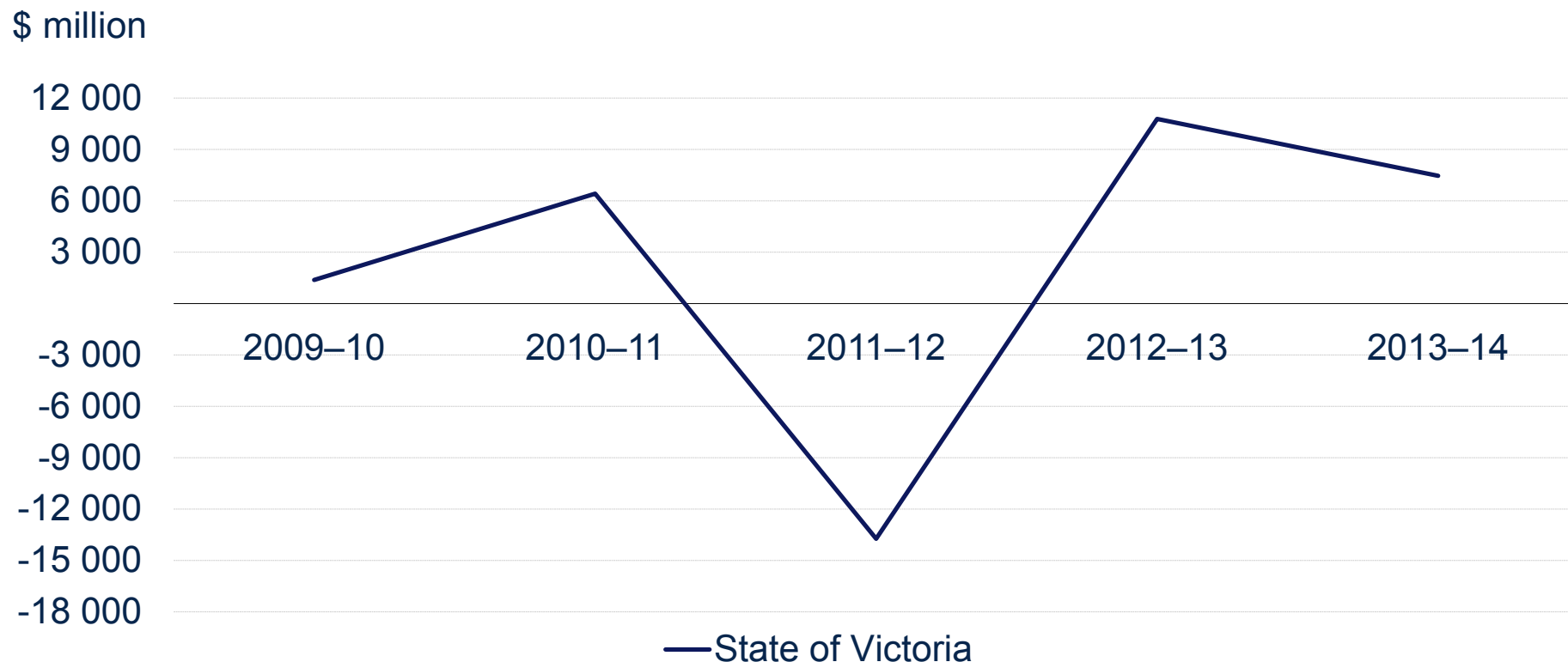




The state's financial result – *continued*

Comprehensive result

- State of Victoria—\$7.5 billion surplus in 2013–14 (\$10.8 billion surplus in 2012–13).

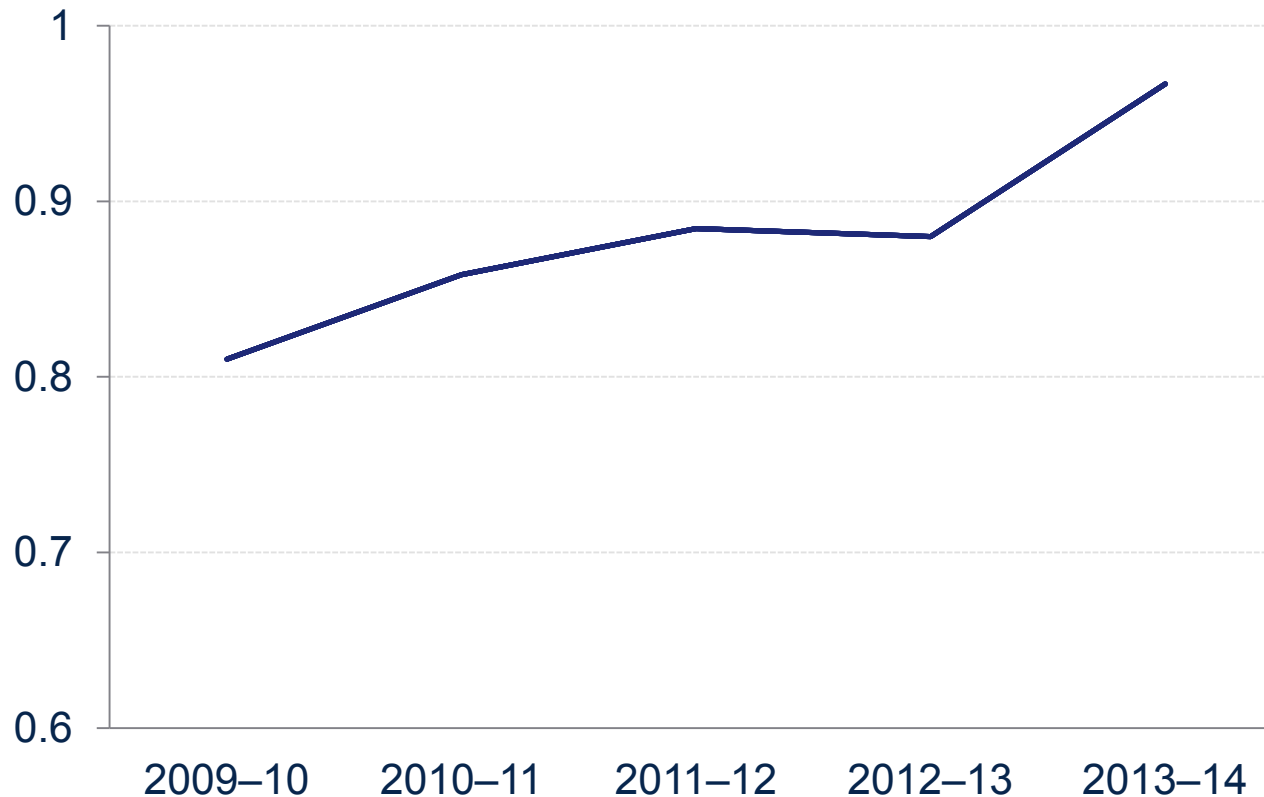




The state's financial result – *continued*

Liquidity:

- State liquidity ratio of 0.97:1 at 30 June 2014.





The state's financial result – continued

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Borrowings:

- State borrowings increased by \$3.8 billion or 8.1 per cent in 2013–14.
- Capacity to service debt is decreasing.



Key recommendations

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		Accept
That the Department of Treasury and Finance:		
1.	develops an appropriate and consistent accounting policy for economic obsolescence of public sector assets that sets out definition, recognition and measurement requirements, and provides guidance on how public sector agencies should apply the economic obsolescence policy. This should be consistent with the requirements of Australian Accounting Standards.	x
2.	works with material entities to improve the timeliness of financial statement preparation.	✓



Recommendations – *continued*

		Accept
That the Department of Education and Early Childhood Development:		
3.	maps the requirements of all applicable Australian Accounting Standards to their underlying systems and records, and identifies any gaps or limitations that prevent the preparation of a complete and accurate set of compliant financial statements.	?
4.	critically reviews its financial report preparation processes to identify areas for improvement and implements all improvements before the 30 June 2015 reporting cycle.	?



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