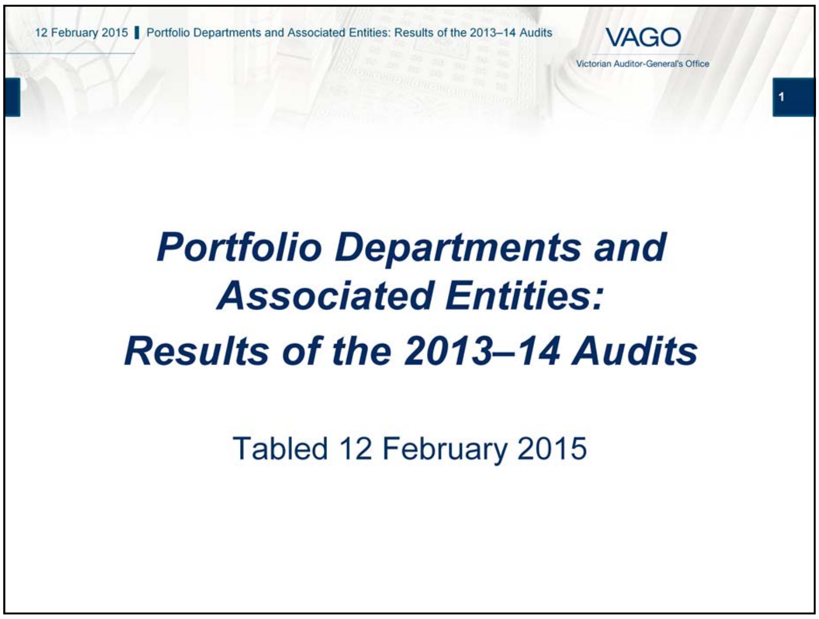
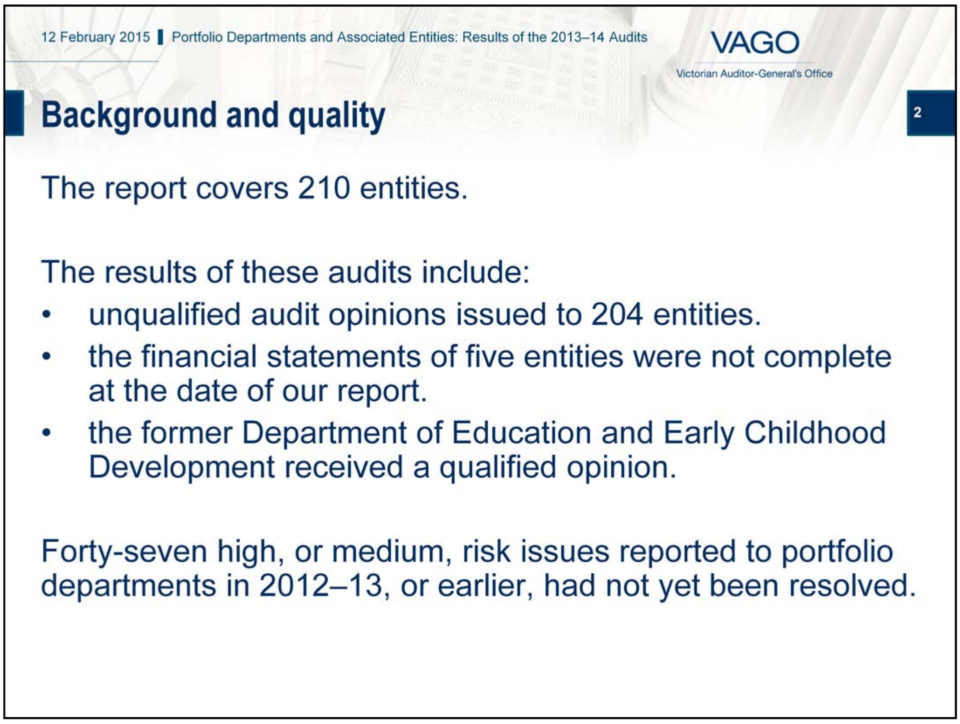


This report comments on the:

- Results of the 2013–14 financial audits of 210 public sector agencies
- The financial sustainability of self-funded entities
- The Victorian Prudential Supervision standards in relation to the state’s insurance agencies
- Certain categories of infringements
- Significant state projects and
- Public Private Partnerships.



The report covers the 2013–14 financial audits of 210 public sector agencies—including the nine former portfolio departments and 201 other public sector agencies—which are not covered in any of our other sector based reports.

The 201 entities include agencies such as:

- Parliament of Victoria
- Ambulance Victoria
- Victoria Police
- PTV
- VicRoads

Of the 210 entities covered by this report, unqualified audit opinions were issued to 204 entities.

A further five entities had not completed their financial statements at the time of this report.

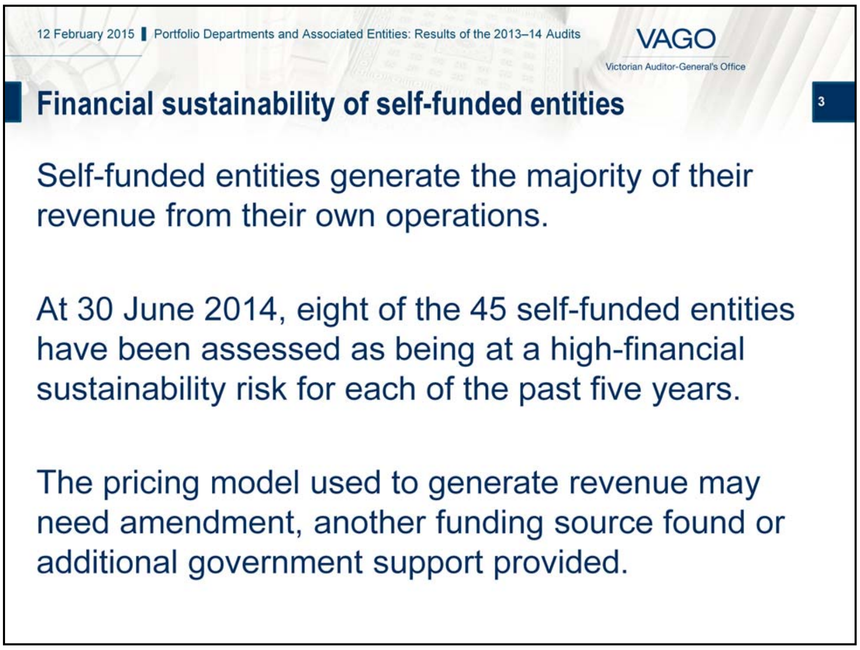
The former Department of Education and Early Childhood Development's financial report for the year ended 30 June 2014 was issued with a qualified opinion as the accounting policy adopted for the valuation of school buildings was considered inappropriate.

This matter was commented upon in the Auditor-General's Report on the Annual Financial Report of the State of Victoria which was previously tabled in Parliament, in October 2014.

Confidence can be placed on that financial report however, except for the effect of the audit qualifications.

During the 2013–14 financial audits it was identified that portfolio departments had not resolved 47 high or medium risk-rated control weaknesses that were identified during the previous 2012–13, or earlier, financial audits.

This lack of timely resolution means that the control frameworks in place at the portfolio departments are not as effective as they could be.



Self-funded entities are public sector entities that generate the majority of their revenue from their own operations.

Self-funded entities should aim to generate enough revenue from their operations to meet their financial obligations as they fall due, and to fund asset replacement or new acquisitions, if they are to be sustainable over the long-term

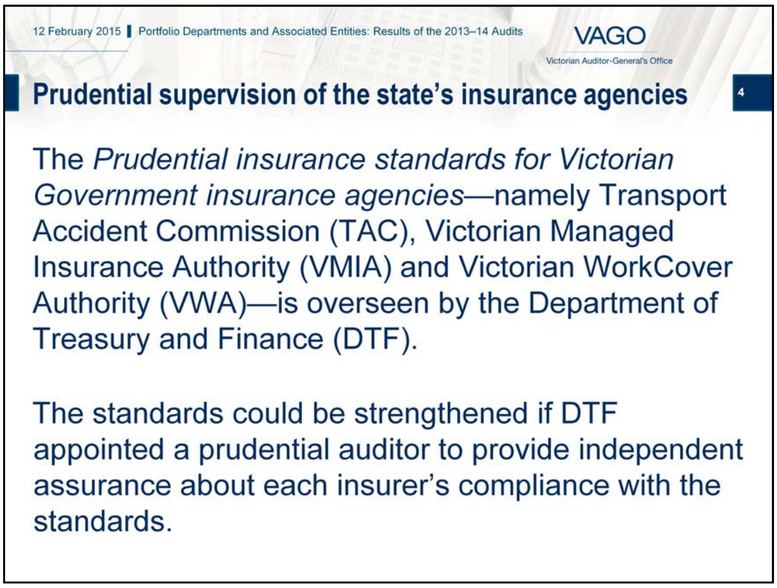
45 of the entities covered by this report are considered to be self-funded. These include:

1. Docklands Studios Melbourne Pty Ltd
2. Melbourne Convention and Exhibition Trust
3. Victorian Arts Centres Trust
4. Port of Melbourne Corporation

Our analysis found that eight of these entities have been consistently identified as being at a high financial sustainability risk in each of the last five years.

For these eight entities there are significant financial challenges, which if not addressed, may lead to a reduction in the services they provide to the community.

If these entities are to be financially sustainable over the long term, the pricing model used to generate their revenue may need to be amended, they may need to find another source of funding or additional government support may need to be provided.



The State's insurance agencies—being the Transport Accident Commission, the Victorian Managed Insurance Authority and the Victorian WorkCover Authority—managed assets of $27.6 billion and liabilities totalling $25.2 billion at 30 June 2014.

The *Prudential Insurance Standards for Victorian Government insurance agencies* is overseen by DTF.

The Standards cover the prudential management of operations at the TAC, the VMIA and the VWA—including their governance and risk management arrangements.

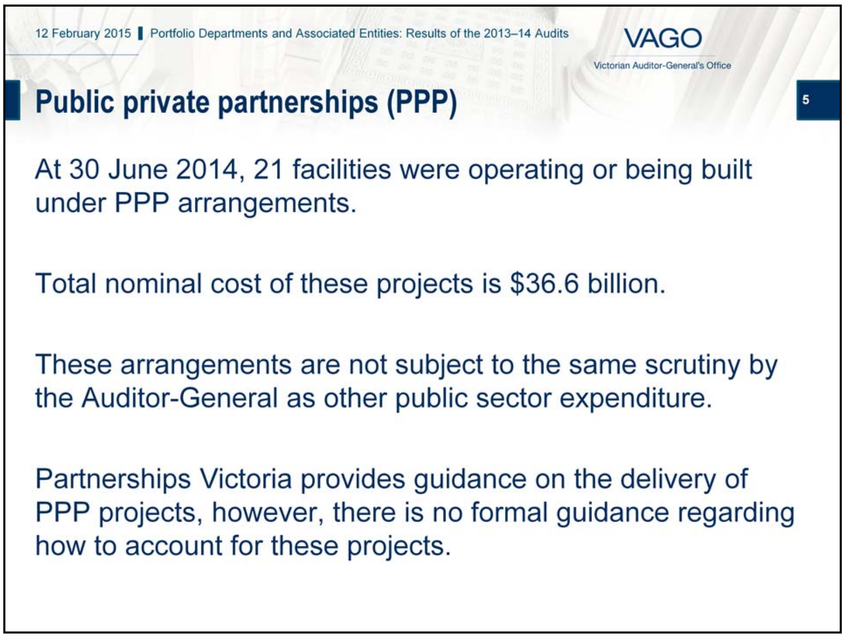
DTF's role, in in relation to Standards, is one of supervision and oversight.

In fulfilling this role, DTF relies mainly on an annual attestation of compliance with the Standards made by the insurers.

The Standards could be strengthened if DTF appointed a prudential auditor to provide independent assurance about each insurance agency's compliance with the Standards.

DTF adopts this approach for other state prudential supervision regimes and it would be similar to having an annual independent audit of agency financial statements.

Each insurance agency's Board of Directors, nevertheless, take reasonable steps to satisfy themselves that the Standard has been properly implemented, within their organisation.



At 30 June 2014, 21 facilities were operating, or being built, in Victoria under a Public Private Partnership.

The total nominal cost of these projects, over their life, is approximately $36.6 billion.

These arrangements should be subject to the same scrutiny as other public spending.

While transactions with the private sector are increasing, the provisions of the *Audit Act* have failed to keep pace with these developments.

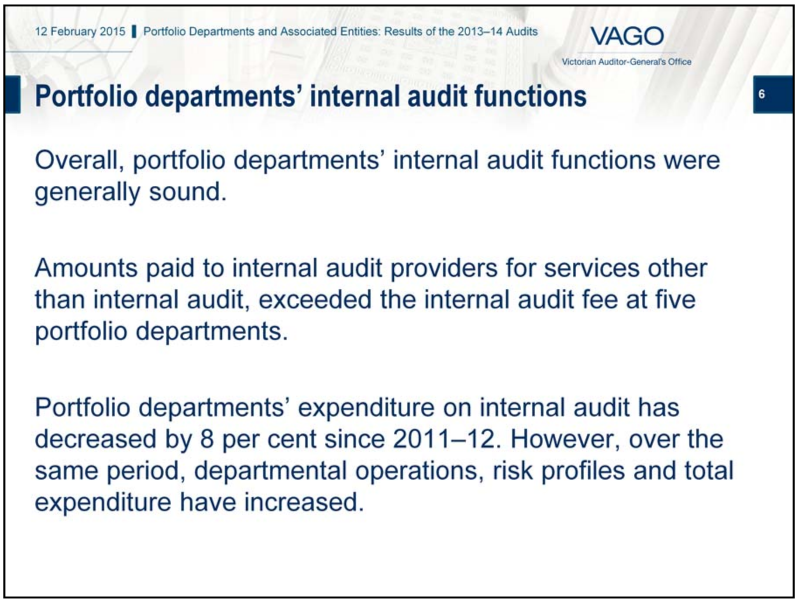
Consequently, the Auditor-General's mandate to review public expenditure on such projects has increasingly eroded.

There is currently no Australian accounting standard, or other whole of Victorian government guidance, which prescribes the accounting treatment for PPP transactions.

While Partnerships Victoria has provided guidance on the delivery of PPP projects, this does not provide any guidance as to how to account for these projects.

In 2010, the Department of Treasury and Finance prepared draft accounting and reporting guidance for PPP projects. This guidance has not been finalised.

DTF should finalise their accounting and reporting guidance for PPP projects.



Portfolio departments are required to establish, maintain and resource an internal audit function.

Our review identified that the internal audit functions at the portfolio departments were generally sound.

All portfolio departments had an internal audit function in place, with an appropriate charter and regular reporting to the audit committee and senior management.

However, it was identified that the total amount paid to internal audit providers, for services outside the scope of internal audit—such as the provision of consulting services—exceeded the internal audit fees at five portfolio departments.

Portfolio departments should take care before engaging an existing internal audit provider to perform additional work, outside the scope of internal audit, to ensure there are no conflicts of interest, there is adequate scrutiny of contract scope and that there is an appropriate segregation of duties. This is to ensure the independence of the internal auditors.

It was also identified that the average annual expenditure on internal audit has reduced by approximately eight per cent since 2011–12 across the nine portfolio departments.

Over the same period, total operating expenditure has increased at the departments—but more significantly, the departments have encountered significant operational and risk profile changes—including machinery of government changes and significant restructures.

This trend is concerning as it suggests that portfolio departments may be treating internal audit as discretionary and non-essential in nature; rather than as an independent source of assurance and improvement.

In 2013–14 over 3 million infringement notices were issued by the state in relation to mobile and fixed camera traffic, tollway, 'on-the-spot' and public transport offences.

The State recognised revenue in its 2013–14 financial statements, from these fines, of approximately $608 million.

The State wrote off almost $60 million of these fines under warrants in 2013–14, as they were deemed uncollectable.

These write-offs occur after all avenues for collection have been exhausted and can occur for various reasons, such as when the offender cannot be found (for example, if the offender has left the country).

We identified that the Department of Justice and Regulation's debt management practices over unpaid fines can be improved through the development of improved management reporting, information gathering and analysis.

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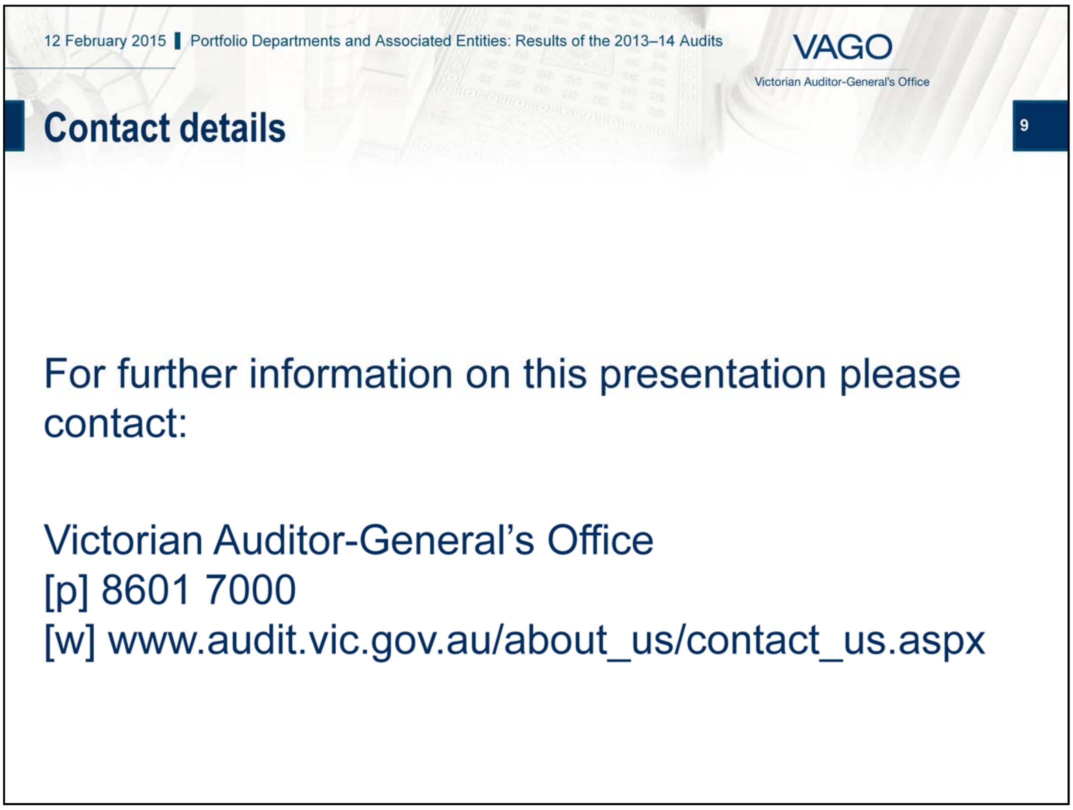
Victorian Auditor-General's Office

Key recommendations

		Page
That portfolio departments and associated entities:		
6.	through audit committees, implement appropriate monitoring mechanisms to ensure audit findings are resolved by management on a timely basis	17
10.	review expenditure on and coverage of the internal audit function to ensure that adequate and appropriate assurance is being obtained over the functions and processes within the portfolio department.	36
That the Department of Treasury and Finance:		
7.	works with self-funded entities to review their underlying pricing model, and sources of funding, in order to improve their long-term financial sustainability	26
11.	strengthen its supervision of the insurance agencies by appointing a prudential auditor to provide independent assurance about the reliability of the insurance agencies' annual attestation of compliance with the Prudential Insurance Standard	45
17.	finalise accounting and reporting guidance for PPP projects, and make it available to Victorian public sector agencies.	85

The report makes a total of seventeen recommendations.

These are the most significant recommendations that were made, and have been addressed throughout this presentation.



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If you have any questions about this or other reports, or if you have anything else you would like to discuss with us including ideas for future audit topics, please call us on 03 8601 7000 or contact us via our website.