Portfolio Departments and Associated Entities: Results of the 2013–14 Audits

Victorian Auditor-General's Report February 2015 2014–15:17

VICTORIA

Victorian
Auditor-General

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Ordered to be published

VICTORIAN
GOVERNMENT PRINTER
February 2015

PP No 6, Session 2014–15

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ISBN 978 1 925226 07 2

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Victorian Auditor-General's Office

Auditing in the Public Interest

The Hon. Bruce Atkinson MLC
President
Legislative Council
Parliament House
Melbourne

The Hon. Telmo Languiller MP
Speaker
Legislative Assembly
Parliament House
Melbourne

Dear Presiding Officers

Under the provisions of section 16AB of the *Audit Act 1994*, I transmit the Auditor-General's report on the *Portfolio Departments and Associated Entities: Results of the 2013–14 Audits*.

This report presents the outcomes and observations from the 2013–14 financial audits of the nine portfolio departments and 201 associated entities. This report finds that all completed financial reports were reliable, except for the former Department of Education and Early Childhood Developments' which received a qualified audit opinion. Confidence can nevertheless be placed on that financial report, except for the effect of the audit qualifications.

This report informs Parliament about significant issues identified during our audits and complements the assurance provided through individual audit opinions included in the entities' annual reports.

The report highlights that improvements can be made to the use of internal audit functions at portfolio departments, the management of operations at the state's alpine resorts and in the state's oversight role of the *Prudential Insurance Standards.* The report also identifies that the management of infringement write-offs could be improved.

Yours faithfully

Dr Peter Frost
Acting Auditor-General

12 February 2015

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Auditor-General's comments

John Doyle
Auditor-General

The *Portfolio Departments and Associated Entities: Results of the 2013–14 Audits* report presents the outcomes and observations from the 2013–14 financial audits of the nine portfolio departments and 201 associated entities.

The Parliament and citizens of Victoria can have confidence in the 2013–14 financial reports of the portfolio departments and associated entities, except for the former Department of Education and Early Childhood Development (DEECD). As detailed in my report *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2013–14,* I issued a qualified audit opinion on the financial report of DEECD. Confidence can nevertheless be placed on that financial report, except for the effect of the audit qualification.

Portfolio departments had not resolved 47 control weaknesses rated as high or medium risk, identified by my audit teams during the 2012–13 audits, or earlier. This lack of action means that the control frameworks in place at the portfolio departments are not as effective as they could be.

The financial sustainability risks of 45 self-funded public sector entities have been analysed. Eight of these entities have consistently been identified as being at a high financial sustainability risk. For these 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 revenue may need amendment, another funding source found or additional government support provided.

Oversight of the state's insurance agencies could be strengthened if the Department of Treasury and Finance appointed a prudential auditor to provide independent assurance about each insurance agency's compliance with the *Prudential insurance standards for Victorian Government insurance agencies*. The state's insurance agencies held assets of $27.6 billion and liabilities of $25.2 billion at 30 June 2014.

At 30 June 2014, 21 facilities were operating or being built in Victoria under a public private partnership. These arrangements should be subject to the same scrutiny as other public spending. While the state government increasingly seeks transactions with the private sector, the provisions of the *Audit Act 1994* have failed to keep pace with these developments. Consequently, my mandate to review public expenditure on such projects has been increasingly eroded.

John Doyle
Auditor-General
February 2015

Audit summary

This report presents the outcomes and observations from the financial audits of the nine portfolio departments and the 201 associated entities that are not addressed in our other sector based reports, including the five Victorian alpine resorts.

These 210 entities make up a significant portion of the public service and are responsible for delivering key public services and community support programs. It is important that they prepare high quality financial reports in a timely manner so that Parliament and the public can identify the revenue, expenses, assets and liabilities required to provide public services and programs.

The ability of public sector entities to operate and to report reliable, accurate and timely information is underpinned by an effective internal control framework. There are many facets to an internal control framework and we annually select areas on which to focus and comment. In this report we examined the internal audit functions at portfolio departments, the prudential supervision of the state's insurance agencies and fines—predominantly traffic fines.

Conclusions

Financial reports prepared by portfolio departments, and their associated entities, are generally timely and accurate. Their contents can be relied on by Parliament and the community, with the exception of the former Department of Education and Early Childhood Development (DEECD) which received a qualified audit report.

A number of self-funded agencies continue to have high financial sustainability risks, which, if not addressed, may affect the service potential of their assets and the services they offer to the community.

Internal audit functions across the portfolio departments were generally sound. However, improvements can be made to strengthen these functions. Portfolio departments' expenditure on internal audit has reduced since 2011–12, despite significant operational changes impacting their risk profiles over the same period.

The *Prudential insurance standards for Victorian Government insurance agencies* provide a framework for the management and supervision of the state's insurers. The framework could be improved with the appointment of an independent prudential auditor to review the attestations made by the insurance agencies.

The debt management practices over unpaid fines can be improved. In the categories reviewed in this report, the state wrote off fines where a warrant had been issued, predominantly traffic fines, totalling $58.2 million in 2013–14, as compared with $60.4 million in 2012–13.

Findings

Quality of financial reporting

A clear audit opinion confirms that an entity's financial report has been prepared according to the requirements of relevant accounting standards and legislation, and fairly presents the financial results of the entity's operations and its assets and liabilities, in all material respects.

Clear opinions were issued for each of the 204 entities that had finalised their financial reports at the time of preparing this report—five financial reports are still to be finalised. The former DEECD's financial report for the year ended 30 June 2014 was issued with a qualified opinion. This matter is commented upon in the *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2013–14.*

The financial statements of 22 entities were not finalised within the statutory time frames.

Portfolio departments had not resolved 47 control weaknesses, rated as high or medium risk, identified during the 2012–13 audits, or earlier. This lack of action means that the control frameworks in place at the portfolio departments are not as effective as they could be.

The State of Victoria's Annual Financial Report

The State of Victoria's Annual Financial Report (AFR) acquits the government's stewardship of the state's finances to Parliament, and is a consolidated financial report of 279 state-controlled entities.

The preparation of the AFR is a requirement of the *Financial Management Act 1994* (FMA), however, we have noted that the AFR is not subject to the same governance and oversight arrangements as other financial reports prepared under the FMA. In particular, an audit committee has not been given responsibility for overseeing the preparation and fair presentation of the AFR.

The former Treasurer of Victoria did not sign the certification of the financial report and delegated this responsibility to specified officers of the Department of Treasury and Finance. However, the Treasurer is responsible for the preparation of the AFR under the FMA.

Audits by invitation

The Auditor-General conducted financial audits of three entities by invitation in 2013–14, as compared with four in 2012–13. This includes the annual financial audit of the Parliament of Victoria's financial statements.

When conducting financial audits by invitation under the *Audit Act 1994*, the Auditor-General cannot consider issues of waste, probity and the lack of financial prudence. These issues are all required considerations for all other financial audits conducted by the Auditor-General under the *Audit Act 1994* and are generally expected aspects of public sector audits.

This limitation on scope means that there are lower standards of accountability for entities audited by invitation than for the rest of the public sector. We are seeking amendments to the *Audit Act 1994* to address these anomalies, and to allow an audit of these entities' expenditure of public funds.

Financial sustainability risks of self-funded public sector entities

Of the 210 portfolio departments and associated entities, 45 are classified as self-funded, because the majority of their revenue is generated from their operations. As a broad rule, self-funded entities should aim to generate sufficient revenue to meet their financial obligations, and to fund asset replacement and new asset acquisitions, if they are to be financially sustainable over the long term.

Fifteen of these entities received a high-risk rating for financial sustainability at 30 June 2014. Across the past five years, eight of these entities have been assessed as having a high sustainability risk every year. The entities are:

- Docklands Studios Melbourne Pty Ltd
- Fed Square Pty Ltd
- Melbourne Convention and Exhibition Trust
- State Sport Centres Trust
- Victorian Arts Centre Trust
- Geelong Performing Arts Centre Trust
- Melton Entertainment Trust
- Port of Melbourne Corporation.

For these entities, there are significant financial challenges, that 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 underlying pricing model used to generate revenue may need amendment, another funding source may need to be found or additional government support may be required.

Internal audit

The Standing Directions of the Minister for Finance require public sector agencies to establish, maintain and resource an internal audit function. Internal audit is a key governance and oversight mechanism.

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.

The value of fees paid to internal audit service providers for services outside the scope of internal audit, such as the provision of consulting services, exceeded the actual internal audit fee at five portfolio departments. Portfolio departments should take due care before engaging an existing internal audit service provider to perform additional work, outside the agreed 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.

The average annual expenditure on internal audit in 2013–14 has reduced by approximately 8 per cent since 2011–12 across the nine portfolio departments. At the same time, operating expenditure has increased by approximately 2 per cent, and the operational and risk profiles of departments have changed significantly.

Prudential supervision

The *Prudential insurance standards* for Vict*orian Government insurance agencies* (the Standard)—being the Transport Accident Commission, the Victorian WorkCover Authority and the Victorian Managed Insurance Authority (the insurance agencies)—require those agencies to submit an annual attestation to the Department of Treasury and Finance (DTF) stating that they have appropriate governance, risk management and prudential management arrangements in place. DTF, as the prudential supervisor, has the power to investigate compliance with the Standard as it considers appropriate.

The supervision approach adopted by DTF is relatively ‘light touch’. DTF relies primarily on the annual compliance certifications of the insurance agencies and does not verify the accuracy of those certifications.

The state's insurance agencies managed assets totalling $27.6 billion and liabilities totalling $25.2 billion at 30 June 2014.

DTF's prudential supervision of the insurance agencies would be strengthened if it exercised its authority under the Standard to appoint an independent prudential auditor to provide independent assurance about the reliability of the insurance agencies' annual attestations of compliance with the Standard. DTF adopts this approach for other state prudential supervision regimes and it would be similar to the requirement of having an annual independent financial audit of agency financial statements.

The insurance agency boards nevertheless take reasonable steps to satisfy themselves that the Standard has been properly implemented. However, the Victorian WorkCover Authority's approach is not consistent with that of the other insurance agencies as it does not seek annual internal audit assurance regarding its compliance with the Standard.

Infringements

In 2013–14 over 3 million infringement notices were issued by the state in relation to mobile and fixed camera traffic offences, tollway offences, 'on-the-spot' offences and public transport offences. The state recognised revenue from these fines totalling $608 million in 2013–14, compared with $649 million in 2012–13.

The state wrote off $58.2 million of these fines under warrants in 2013–14, compared with $60.4 million in 2012–13, as they were deemed uncollectable. The Department of Justice and Regulation's (DJR) debt management practices over unpaid fines can be improved through the development of improved management reporting, information gathering and analysis. Currently DJR does not analyse the write-off of fines by category, or type, to assist in improving the collection and enforcement of unpaid fines.

Alpine resorts

Over the five years to 31 October 2013, the state's alpine resorts have generally reported a collective operating surplus. This is largely due to ongoing funding provided by the state government.

However, the Mount Baw Baw and Lake Mountain resorts have regularly been rated a high financial sustainability risk—indicating there may be short-term financial risks that need to be managed.

Significant projects

A number of significant projects were underway at 30 June 2014 including the Port Capacity Project, Regional Rail Link and Western Highway upgrades. In the majority of cases, the significant projects reviewed are progressing on time and within budget.

However, the Regional Rail Link was originally expected to be completed by December 2014—following a 2011 review, the project completion time frame was changed to 2016.

The Western Highway upgrades include the duplication of the Western Highway between Ballarat and Stawell. Funding approvals currently in place are only sufficient to complete the duplication to Ararat, which is 30 kilometres short of Stawell. Completion of the upgrades is dependent on further funding negotiations with the Commonwealth Government.

Public private partnerships

At 30 June 2014, 21 facilities were operating, or were being built in Victoria, under a public private partnership (PPP) arrangement. The total nominal cost of these PPPs over the remaining life of the contracts is $36.6 billion. It is important these arrangements are subject to the same scrutiny by the Auditor-General as other public spending.

While the state has increasingly sought such partnerships, alliances or other service delivery models involving the private sector, the provisions of the *Audit Act 1994* have failed to keep pace with these developments. Consequently, the Auditor-General's mandate to review public expenditure on large projects has been eroded. Simultaneously there has been continued, if not increased, expectations from the community about transparency and accountability.

There is currently no Australian accounting standard, or other whole-of-Victorian-government guidance, which prescribes how PPP transactions should be accounted for.

Recommendations

Number	Recommendation	Page
1.	That the State of Victoria's Annual Financial Report be subject to review by an independent audit committee.	17
2.	That the Financial Reporting Directions and Standing Directions under the *Financial Management Act 1994* be applicable to the State of Victoria's Annual Financial Report.	17
3.	That the Treasurer of Victoria signs the certification of the State of Victoria's Annual Financial Report.	17
That portfolio departments and associated entities:		
4.	review their financial reporting processes to address the better practice financial reporting elements identified in this report, including the preparation of shell financial statements	17
5.	address identified internal control issues in a timely manner	17
6.	through audit committees, implement appropriate monitoring mechanisms to ensure audit findings are resolved by management on a timely basis.	17
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
That portfolio departments:		
8.	improve and document processes for the assessment and mitigation of the potential conflicts of interest of internal auditors, and ensure that this is not compromised when engaging internal audit service providers to perform additional services	36
9.	improve the key performance measures used to review the internal audit function, and utilise these to conduct regular assessments of the function	36
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

Recommendations – *continued*

Number	Recommendation	Page
That the Department of Treasury and Finance:		
11.	strengthens 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 standards for Victorian Government insurance agencies*	45
12.	provides additional guidance to insurers regarding the level and frequency of internal audits to be conducted at all insurers, to ensure a consistent and comprehensive approach.	45
That the Victorian WorkCover Authority:		
13.	engages its internal auditors to conduct an annual assessment of its compliance with the *Prudential insurance standards for Victorian Government insurance agencies*, to bring its practices in line with the better practice undertaken by the other insurers.	45
That the Department of Justice and Regulation:		
14.	obtains assurance over the operating effectiveness of internal controls at third-party service providers	59
15.	routinely reports on, and undertakes an analysis of, the categories and types of fines written off in order to improve the collection of unpaid fines.	59
That the alpine resorts:		
16.	develop strategies to improve their long-term financial sustainability.	64
That the Department of Treasury and Finance:		
17.	finalises accounting and reporting guidance for public private partnership projects, and makes it available to Victorian public sector agencies.	85

Submissions and comments received

In addition to progressive engagement during the course of the audit, in accordance with section 16(3) of the *Audit Act 1994* a copy of this report, or relevant extracts from the report, was provided to all portfolio departments and named agencies with a request for submissions or comments.

Agency views have been considered in reaching our audit conclusions and are represented to the extent relevant and warranted in preparing this report. Their full section 16(3) submissions and comments are included in Appendix F.

1 Background

1.1 Introduction

This report covers the nine portfolio departments and 201 associated entities with 30 June 2014 balance dates. Included in these associated entities are the five alpine resort management boards (alpine resorts) which have an annual balance date of 31 October. The most common reporting frameworks for these entities are the *Financial Management Act 1994* (FMA), the *Corporations Act 2001* and the Australian Accounting Standards. Details of the entities covered in this report are set out in Appendix C.

This is the first time the alpine resorts have been included in our parliamentary report covering the portfolio departments and associated entities. Previously the alpine resorts have been included in our annual parliamentary report on the education sector.

1.2 Structure of this report

The structure of this report is set out in Figure 1A.

Figure 1A
Report structure

Parts	Description
Part 2: Quality of reporting by financial entities	Comments on the quality of the financial reports prepared by portfolio departments and associated entities.
Part 3: Financial sustainability risks of self-funded entities	Provides insight into the financial sustainability risks of self-funded public sector bodies, based on the trends of four financial sustainability indicators over the past five years.
Part 4: Internal audit	Assesses the policies, management and governance practices regarding internal audit at portfolio departments.
Part 5: Prudential supervision	Comments on certain practices relating to state insurance agencies' compliance with the *Prudential insurance standards for Victorian Government insurance agencies*.
Part 6: Infringements	Comments on the policies, management and governance practices relating to on-the-spot, traffic camera, tollway and public transport offences.
Part 7: Alpine resorts	Comments on the financial results and financial sustainability risks of the five Victorian alpine resorts.
Part 8: Significant projects	Provides information on the developments of significant Victorian infrastructure projects during 2013–14.
Part 9: Public private partnerships	Provides information on the developments of significant public private partnerships during 2013–14.

Source: Victorian Auditor-General's Office.

1.3 Audit of financial reports

An annual financial audit has two aims:

- to give an opinion consistent with section 9 of the *Audit Act 1994*, on whether the financial statements are presented fairly, and in accordance with the relevant financial reporting framework
- to consider whether there has been any wastage of public resources or a lack of probity or financial prudence in the management or application of public resources, consistent with section 3A(2) of the *Audit Act 1994*.

1.3.1 Audit of internal controls relevant to the preparation of the financial report

Integral to the annual financial audit is an assessment of the adequacy of the internal control framework and governance processes related to an entity's financial reporting. In making this assessment, consideration is given to the internal controls relevant to the entity's preparation and fair presentation of the financial report, but this assessment is not used for the purpose of expressing an opinion on the effectiveness of the entity's internal controls.

Internal controls are systems, policies and procedures that help an entity to reliably and cost-effectively meet its objectives. Sound internal controls enable the delivery of reliable, accurate and timely external and internal reports. An entity's governing body is responsible for developing and maintaining its internal control framework.

Internal control weaknesses we identify during an audit do not usually result in a modified audit opinion because often an entity will have compensating controls that mitigate the risk of a material error in the financial report, or we can undertake alternative audit procedures to gain sufficient assurance. A modification is warranted only if weaknesses cause significant uncertainty about the accuracy, completeness and reliability of the financial information.

Weaknesses in internal control found during the audit of an individual entity are reported to its governing body, management and audit committee in a management letter.

Our reports to Parliament raise systemic or common weaknesses identified during our assessments of internal controls over financial reporting and selected focus areas. This report includes the results of our review of the internal audit function at portfolio departments, compliance with prudential insurance supervision standards by the state's insurers, and comments on certain infringements. This report also considers the financial results and sustainability risks of alpine resorts and provides an update on significant projects and public private partnerships within Victoria.

1.3.2 Financial audits of portfolio departments and associated entities

A breakdown of the entities covered by this report is set out in Figure 1B.

Figure 1B
Entities by portfolio and legislative reporting framework

Portfolios as at 30 June 2014	Financial Management Act		Corporations Act		Other		Total	
	2013–14	2012–13	2013–14	2012–13	2013–14	2012–13	2013–14	2012–13
Parliament	2	2	0	0	0	0	**2**	**2**
Education and Early Childhood Development	5	5	1	2	0	0	**6**	**7**
Environment and Primary Industries	51	38	2	0	1	0	**54**	**38**
Health	13	13	0	0	2	2	**15**	**15**
Human Services	3	3	0	0	0	0	**3**	**3**
Justice	26	27	2	2	2	2	**30**	**31**
Planning and Community Development	0	13	0	1	0	0	**0**	**14**
Premier and Cabinet	13	11	0	0	1	1	**14**	**12**
Primary Industries	0	10	0	2	0	1	**0**	**13**
State Development, Business and Innovation	9	7	4	4	0	0	**13**	**11**
Transport, Planning and Local Infrastructure	20	11	7	6	0	0	**27**	**17**
Treasury and Finance	14	15	7	6	25	24	**46**	**45**
Total	**156**	**155**	**23**	**23**	**31**	**30**	**210**	**208**

Note: The alpine resort management boards are included in the Department of Environment and Primary Industries total for 2013–14.
Source: Victorian Auditor-General's Office.

The overall number of entities audited and covered in this report increased by two since 2012–13. A list of changes is provided in Figure 1C.

Figure 1C
Changes to audited entities in 2013–14

Moved between parliamentary reports	
Falls Creek Alpine Resort Management Board	Previously included in our Parliamentary report on the Education sector.
Lake Mountain Alpine Resort Management Board	Previously included in our Parliamentary report on the Education sector.
Mount Baw Baw Alpine Resort Management Board	Previously included in our Parliamentary report on the Education sector.
Mount Hotham Alpine Resort Management Board	Previously included in our Parliamentary report on the Education sector.
Mt Buller and Mt Stirling Alpine Resort Management Board	Previously included in our Parliamentary report on the Education sector.
NMIT International Limited	Previously included in this report, will now be included in the Parliamentary Report on the tertiary and further education entities.
New entities in 2013–14	
Metropolitan Planning Authority	Entity established 9 October 2013 to take up the functions of the Growth Areas Authority which was wound up on 9 October 2013.
VMFC Inflation Linked Bond Trust	New trust managed by the Victorian Funds Management Corporation, established 5 September 2013.
VMFC International Equity Trust 1	New trust managed by the Victorian Funds Management Corporation, established 5 September 2013.
Victorian Building Authority	Entity established 1 July 2013 to take up the functions of the Building Commission and the Plumbing Industry Commission.
Victorian Public Sector Commission	Entity established 1 April 2014 to undertake the functions of the State Service Authority which was wound up on 1 April 2014.
Yorta Yorta Traditional Owners Land Management Board	Entity established 11 July 2013.
Entities wound up in 2013–14	
Building Commission	Entity ceased on 30 June 2013. Functions transferred to the Victorian Building Authority.
Department of Planning and Community Development	Entity ceased on 30 June 2013. Functions transferred to other portfolio departments.
Department of Primary Industries	Entity ceased on 30 June 2013. Functions transferred to other portfolio departments.
Growth Areas Authority	Entity ceased on 9 October 2013. Functions transferred to the Metropolitan Planning Authority.
Office of Police Integrity	Entity ceased on 9 February 2013.
Plumbing Industry Commission	Entity ceased on 30 June 2013. Functions transferred to the Victorian Building Authority.
State Services Authority	Entity ceased on 1 April 2014. Functions transferred to the Victorian Public Sector Commission.
Transport Ticketing Authority	Entity ceased on 30 June 2013. Functions transferred to the Public Transport Development Authority.

Source: Victorian Auditor-General's Office.

1.4 Machinery of government changes

Machinery of government changes amend the administrative structure of government agencies. These can be small changes, such as the transfer of a function from one portfolio department to another, or significant changes, such as the merging of portfolio departments, or the creation or discontinuation of an entity or portfolio department.

On 9 April 2013, the then Premier announced machinery of government changes that affected some of the portfolio departments and included:

- changes to the number and scope of portfolio departments
- new departmental secretaries
- changes to ministerial allocations.

An Order in Council was issued under the *Public Administration Act 2004*. It renamed three existing departments with immediate effect:

- the Department of Transport was renamed to the Department of Transport, Planning and Local Infrastructure
- the Department of Sustainability and Environment was renamed to the Department of Environment and Primary Industries
- the Department of Business and Innovation was renamed to the Department of State Development, Business and Innovation.

The Department of Planning and Community Development and the Department of Primary Industries, ceased to exist for financial reporting purposes effective from 1 July 2013. The operations of these departments were mainly amalgamated into the new Department of Transport, Planning and Local Infrastructure and the Department of Environment and Primary Industries respectively; although some functions were moved to the Department of Premier and Cabinet, including Veterans Affairs, and to the Department of State Development and Business Innovation, including CenITex and EnergySafe Victoria.

On 3 June 2013, the Premier made a declaration under section 30 of the *Public Administration Act 2004* that transferred staff and functions between portfolio departments on that day, to affect the machinery of government changes.

The financial impacts of the machinery of government changes have been recognised in the 2013–14 financial statements for the relevant portfolio departments, with the assets, liabilities, income and expenditure transferring to the new portfolio department on 1 July 2013.

During December 2014, the new government initiated machinery of government changes which will impact the 2014–15 financial year.

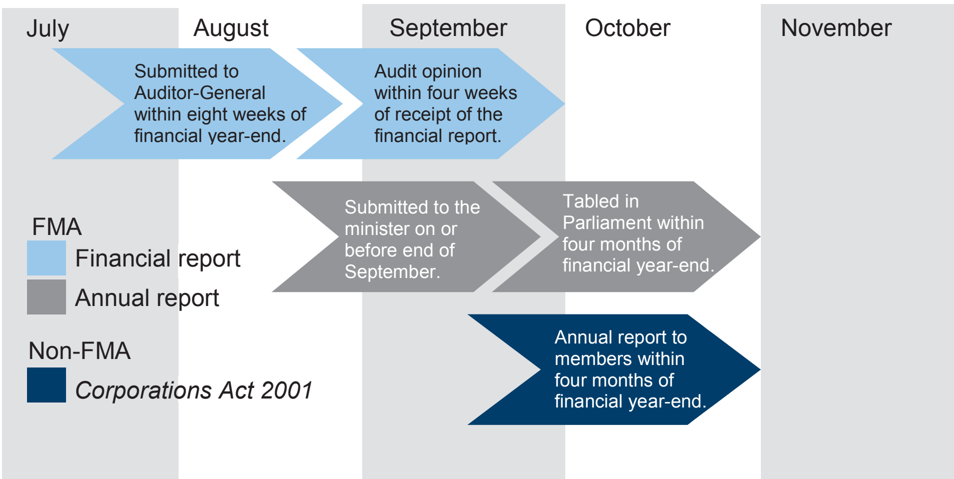
1.5 Reporting framework

Financial statements are required to be prepared in accordance with Australian Accounting Standards, and the applicable legislated reporting frameworks. Under the FMA, the Minister for Finance has the authority to issue directions in relation to financial administration and reporting issues.

The FMA requires annual reports to be submitted to the relevant minister and tabled in Parliament within four months of the end of the financial year. These reports should include financial reports for the entity and any controlled entities, and are required to be prepared and audited within 12 weeks of the financial year end.

Entities reporting under the *Corporations Act 2001* are required to report to their members within four months of the end of the financial year. A summary of the FMA and *Corporations Act 2001* reporting time frames is provided in Figure 1D.

Figure 1D
Legislated financial reporting time frames



Source: Victorian Auditor-General's Office.

1.6 Audit content

The audits of the portfolio departments and associated entities were undertaken in accordance with Australian Auditing Standards.

Pursuant to section 20(3) of the *Audit Act 1994*, unless otherwise indicated any persons named in this report are not the subject of adverse comment or opinion.

The total cost of preparing and printing this report was $275 000.

2 Quality of reporting by financial entities

At a glance

Background

This Part covers the results of the 2013–14 audits of nine portfolio departments and 201 associated entities. It also compares the financial reporting practices in 2013–14 against better practice, legislated time lines and 2012–13 performance.

Conclusion

Parliament can have confidence in the financial reports of the 204 entities given unqualified opinions for 2013–14. The financial report of the former Department of Education and Early Childhood Development received a qualified audit opinion.

We undertook three financial audits by invitation in 2013–14, including the Parliament of Victoria and the Senior Master of the Supreme Court of Victoria. When conducting financial audits by invitation under the *Audit Act 1994*, the Auditor-General cannot consider issues of waste, probity and the lack of financial prudence. We are seeking amendments to the Act to address these anomalies, and to give the Auditor-General the ability to audit these entities' expenditure of public funds.

Findings

- The former Department of Education and Early Childhood Development received a qualified opinion in 2013–14.
- The preparation of the State of Victoria's Annual Financial Report (AFR) is a requirement of the *Financial Management Act 1994*, however, we have noted that the AFR is not subject to the same independent governance and oversight arrangements as other financial reports prepared under the FMA.

Recommendations

- That the AFR be subject to review by an independent audit committee.
- That the Treasurer of Victoria sign the certification of the AFR.
- That portfolio departments and associated entities, through audit committees, implement appropriate monitoring mechanisms to ensure audit findings are resolved by management on a timely basis.

2.1 Introduction

This part covers the results of the 2013–14 audits of nine portfolio departments and 201 associated entities. It also compares the financial reporting practices in 2013–14 against better practice, legislated time lines and 2012–13 performance.

2.2 Conclusion

The financial reports of portfolio departments and their associated entities for 2013–14 were of a high standard, with the exception of one department. At the date of preparing this report, 204 unqualified audit opinions had been issued. The former Department of Education and Early Childhood Development (DEECD) received a qualified opinion and the financial reports of five entities had not been finalised at the time this report was prepared—including three of the alpine resorts. The financial statements of 22 entities were not finalised within the statutory time frames.

2.3 Audit opinions issued

Independent audit opinions add credibility to financial reports by providing reasonable assurance that the information reported is reliable and accurate. An unqualified audit opinion confirms that the financial statements fairly present the transactions and balances for the reporting period, in accordance with the requirements of relevant accounting standards and applicable legislation.

Unqualified audit opinions were issued on 204 financial reports, compared with 203 in 2012–13, although a number of these opinions were issued with an emphasis of matter. One qualified opinion was issued.

Qualified opinion

DEECD received a qualified audit opinion for its 2013–14 financial report. The reasons for the qualification of the opinion issued in respect of the DEECD financial statements were set out in detail in the *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2013–14.* A summary of these findings is presented below.

The audit opinion on DEECD's 2013–14 financial report was qualified with respect to a $1.58 billion economic obsolescence adjustment to the carrying value of school buildings at 30 June 2014, and the reclassification of the prior period's school building impairment of $2.15 billion as a fair value adjustment.

The audit opinion was qualified because:

- the accounting policy adopted to fair value school building assets, specifically including an economic obsolescence adjustment, was not appropriate
- the key valuation assumptions and judgements were not be supported by sufficient appropriate evidence
- the reclassification of previously reported 30 June 2013 balances did not accord with Australian Accounting Standards

- DEECD included comments in the accountable officer's and chief finance officer's declaration on the 2013–14 financial report that were inappropriate.

DEECD's accounting policy for economic obsolescence resulted in a significant write down of taxpayer investments in school buildings which continue to deliver educational outcomes. Further, in our review of the practices applied across other Australian jurisdictions we found that Victoria is alone in its approach to this matter.

Emphasis of matter

An auditor can draw a reader's attention to a matter or disclosure in the financial report to provide important context, including where the financial report has been prepared using a special purpose financial framework. Financial reports that include an emphasis of matter (EoM) paragraph in the audit opinion still present the entity's financial information fairly and can be relied upon by the user.

In 2013–14, 26 entities covered by this report prepared special purpose financial reports. These entities received an EoM paragraph in their opinion to draw attention to this basis of preparation. In addition, four entities received an audit opinion containing an EoM for other reasons, as detailed in Figure 2A.

Figure 2A
30 June 2014 opinions with an emphasis of matter paragraph

Entity	Reason
Architects Registration Board of Victoria	The EoM paragraph drew the users' attention to the recently introduced legislation which, when passed, will repeal the *Architects Registration Act 1991* and transfer the operations, assets and liabilities of the repealed board to the Victorian Building Authority.
Domestic Building (HIH) Indemnity Fund	The EoM drew the users' attention to the fact that the report was prepared on the basis that the entity would cease, due to the intended winding up of the entity. Legislation has been introduced into Parliament which would, amongst other provisions, wind up the fund on, or before, 1 July 2016.
Legal Services Board Legal Services Commission	The EoM paragraph drew the users' attention to Note 1 of the financial report that explains that both entities are included in the financial report as a single composite entity pursuant to section 53(1)(b) of the *Financial Management Act 1994.*
VFMC Ontario Inc	The EoM drew the users' attention to the fact that the report was prepared on the basis that the entity would cease due to the intended winding up of the entity.

Source: Victorian Auditor-General's Office.

2.4 Quality of reporting

The quality of an entity's financial reporting can be measured in part by the timeliness and accuracy of the preparation and finalisation of its financial report, as well as against better practice criteria.

Appendix C details the legislative and reporting framework for the entities covered by this report.

2.4.1 Accuracy

The frequency and size of errors in the draft financial reports submitted to audit are direct measures of the accuracy of those reports. Ideally, there should be no errors or adjustments required as a result of an audit.

Our expectation is that all entities will adjust any errors identified during an audit, other than those errors that are clearly trivial or clearly inconsequential to the financial report, as defined under the auditing standards. The public is entitled to expect that any financial reports that bear the Auditor-General's opinion are accurate and of the highest possible quality. Therefore, all errors identified during an audit should be adjusted, other than those that are clearly trivial, as defined in the Australian Auditing Standards.

Material adjustments

Material errors need to be corrected before an unqualified audit opinion can be issued. It is noted that 21 material financial adjustments were made across the nine portfolio departments during the 2013–14 audits, compared with 23 in 2012–13. Of these 21 adjustments, four were greater than $100 million—all relating to DEECD—and a further eight were greater than $10 million—relating to DEECD, the Department of Treasury and Finance (DTF) and the former Department of Environment and Primary Industries.

A further 28 material adjustments were made to the disclosures in the notes accompanying the financial statements, compared with 21 in 2012–13.

The most common areas of material financial and disclosure adjustments identified during the 2013–14 audits were:

- **commitment disclosures**—adjustments to the financial and narrative information relating to the portfolio departments future commitments, including disclosures regarding public private partnerships
- **property, plant and equipment disclosures**—the introduction of Australian Accounting Standard AASB13 Fair Value Disclosures required all entities to disclose significantly more information in their 2013–14 financial statements than in prior years regarding the nature of assets held, and the factors used in determining their valuations
- **recognition of and/or transfer of assets**—adjustments arose following the transfer of assets from one portfolio department to another as a result of the machinery of government changes and from the incorrect recognition of the valuation of fixed assets held by an entity.

Other than two adjustments relating to the DEECD qualified audit opinion, all material errors were adjusted prior to the completion of the financial reports.

Adjustment of other misstatements

Other errors should also be corrected before the audit opinion is issued. While some errors may appear quantitatively immaterial in isolation, in aggregate, a series of small errors may have a significant impact on an entity's financial statements or an entity's operating result.

During the 2013–14 audits, a number of misstatements above clearly trivial thresholds, but below materiality levels, were identified. Most were subsequently adjusted in entities' financial statements, however, some were not adjusted either because they were identified too late in the financial statement preparation process, or could not be processed in a timely manner without raising an unacceptable risk of creating further errors. In these instances the misstatement was raised with management and will be rectified during 2014–15.

Given their nature, these items do not affect the fair presentation of the entity's financial information, meaning the financial reports can still be relied upon by the user.

2.4.2 Timeliness

Timely financial reporting is key to providing accountability to stakeholders and enables informed decision-making. The later reports are produced and published after year end, the less useful they are.

Financial statements prepared pursuant to the *Financial Management Act 1994* (FMA) are required to be finalised within 12 weeks of the end of financial year—while the relevant annual reports should be tabled in Parliament within four months of the end of the financial year.

In 2013–14, 183, or 87 per cent, of the 210 entities covered by this report completed their financial reports within the required legislated time frame, compared with 97 per cent, in 2012–13.

Twenty-two entities failed to finalise their financial reports within the relevant time frame, compared with 9 in 2012–13. Five entities, including three alpine resorts, had not finalised their financial statements as at 14 January 2015.

These delays are partially attributable to the entities' failure to prepare for the new Australian Accounting Standard AASB13 *Fair Value Disclosures*, which imposed increased reporting requirements. These entities should review their financial reporting preparation to ensure that they are able to report on any changed or new accounting standards in an accurate and timely manner, without compromising their legislative obligations.

Another common reason for the delays was a lack of timely preparation of draft financial reports for audit. By not providing complete draft statements to the auditors by the date agreed, any issues identified may not be resolved in a timely manner, impacting the entity's ability to meet their reporting time frame. Entities should work with their auditors to agree on appropriate timetables that enable them to meet their legislative obligations.

2.4.3 Portfolio department financial reporting

An assessment of the quality of the financial reporting process of the nine portfolio departments was conducted against better practice criteria, detailed in Figure 2B, using the following scale:

- **no existence**—process not conducted by the department
- **developing**—partially encompassed in the entity's financial reporting process
- **developed**—entity has implemented the process, however, it is not fully effective or efficient
- **better practice**—entity has implemented efficient and effective processes.

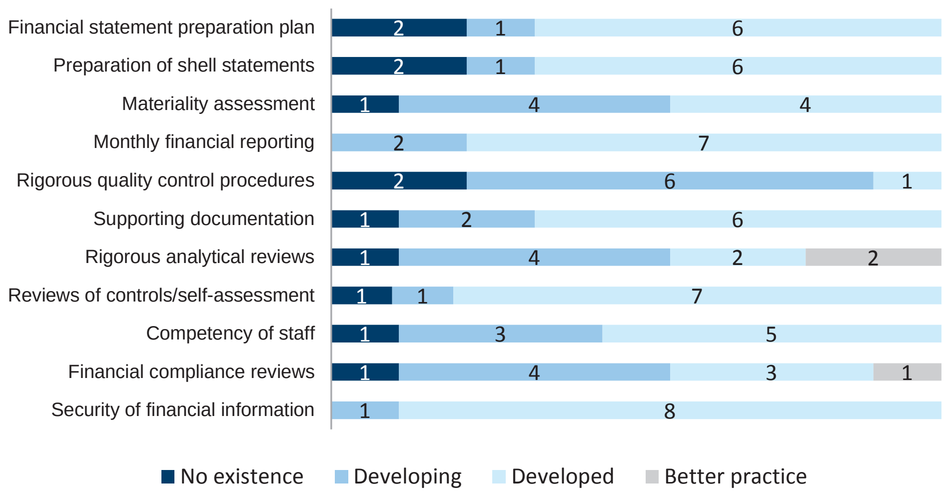
Figure 2B
Financial report preparation better practice

Key area	Better practice
Financial report preparation plan	Establish a plan that outlines the processes, resources, milestones, oversight, and quality assurance practices required in preparing the financial report.
Preparation of shell statements	Prepare a shell financial report and provide it to the auditors early to enable early identification of amendments, minimising the need for significant disclosure changes at year end.
Materiality assessment	Assess materiality, including quantitative and qualitative thresholds, at the planning phase in consultation with the audit committee. The assessment assists preparers to identify potential errors in the financial report.
Monthly financial reporting	Adopt full accrual monthly reporting to assist in preparing the annual financial report. This allows the year-end process to be an extension of the month-end process.
Quality control and assurance procedures	Require rigorous review of the supporting documentation, data and the financial report itself by an appropriately experienced and independent officer prior to providing it to the auditors.
Supporting documentation	Prepare high-standard documentation to support and validate the financial report and provide a management trail.
Analytical reviews	Undertake rigorous and objective analytical review during the financial report preparation process to help to improve the accuracy of the report.
Reviews of controls/ self-assessment	Establish sufficiently robust quality control and assurance processes to provide assurance to the audit committee on the accuracy and completeness of the financial report.
Competency of staff	The preparers of the financial report have a good understanding of, and experience in, applying relevant accounting standards and legislation. They also have effective project management and interpersonal skills.
Financial compliance reviews	Undertake periodic compliance reviews to identify areas of noncompliance or changes to legislation that impact the financial report.
Adequate security	Protect and safeguard sensitive information throughout the process to prevent inappropriate public disclosure.

Source: Victorian Auditor-General's Office, and Australian National Audit Office *Better Practice Guide Preparation of Financial Statements by Public Sector Entities*, June 2009.

The results are summarised in Figure 2C.

Figure 2C
Results of assessment of report preparation processes against better practice elements



Source: Victorian Auditor-General's Office.

While most elements were developing or developed, with some portfolio departments having achieved better practice, the most significant element to be addressed is the need to consider materiality when preparing the financial statements. The need to undertake rigorous analytical review and strong quality control procedures during the financial report preparation process are essential to ensure the accuracy and completeness of the financial statement disclosures. As part of this process, portfolio departments need to build in detailed financial compliance reviews over the financial statements to ensure that all key elements of the Australian Accounting Standards are complied with.

All of these areas are a significant part of the financial statement preparation process and by not having these elements built into the process, portfolio departments could potentially jeopardise the quality of their financial statements as well as their ability to meet legislated time lines.

2.4.4 The State of Victoria's Annual Financial Report

The State of Victoria's Annual Financial Report (AFR) acquits the government's stewardship of the state's finances to Parliament, and is a consolidated financial report of the 279 state-controlled entities.

The preparation of the AFR is a requirement of the FMA, however, we have noted that the AFR is not subject to the same independent governance and oversight arrangements as other financial reports prepared under the FMA. In particular, while DTF has an audit committee, that committee does not have responsibility for overseeing the preparation and fair presentation of the AFR.

Additional disparities in the governance structure for the AFR compared to other FMA financial reports were identified:

- The Treasurer of Victoria is responsible for the preparation of the AFR in accordance with applicable Australian Accounting Standards, and determines the manner and form of the financial statements in accordance with the FMA. Consequently, the Treasurer is both responsible for preparing the AFR but also determines the manner and form of the AFR. The form and content of all other financial reports prepared under the FMA are determined by the Minister for Finance. Further, the AFR is not bound to comply with the Financial Reporting Directions or the Standing Directions of the Minister for Finance despite these frameworks applying to other entities prepared under the FMA. This means that the AFR does not disclose some information required by other financial reports, such as related party transactions or executive remuneration.
- The former Treasurer of Victoria did not sign the certification of the financial report and has delegated this responsibility to specified officers of DTF. The AFR does not formally note that the signatories are doing so on behalf of the Treasurer. This is inconsistent with other financial reports prepared under the FMA which are certified by the respective responsible persons.

The objectivity and credibility of financial reporting is diminished when appropriate governance structures are not in place. As the consolidating report to Parliament, the AFR's governance processes should be in line with better practice, and we recommend the above issues are addressed by the Treasurer and DTF.

2.5 Audits by invitation

An entity that does not meet the definition of an authority under the *Audit Act 1994* is not required to have the Auditor-General conduct its financial audit. However, under section 16G of the *Audit Act 1994*, the Auditor-General can accept an invitation to conduct the financial audit of an entity that is not an 'authority'.

Before accepting such an invitation, the Auditor-General must be satisfied that the person or body exists for a public purpose and that it is practicable, and in the public interest, for the Auditor-General to conduct the audit.

The Auditor-General conducted financial audits of three entities by invitation in 2013–14:

- Parliament of Victoria
- Australian Health Practitioner Regulation Agency
- Senior Master of the Supreme Court of Victoria.

When conducting financial audits by invitation under section 16G, the Auditor-General cannot consider issues of waste, probity and the lack of financial prudence. These issues are all required considerations for all other financial audits conducted by the Auditor-General and are generally expected aspects of public sector audits.

This limitation on scope means that there are lower standards of accountability for these entities audited by invitation than for the rest of the public sector. We are seeking amendments to the *Audit Act 1994* to address these anomalies, and to allow an audit of these entities' expenditure of public funds.

2.6 Internal controls relevant to the preparation of financial reports

Internal controls at the nine portfolio departments, to the extent that they were reviewed as part of our audit, were adequate for reliable external financial reporting. However, a number of control weaknesses were reported to departmental secretaries and management during the course of the 2013–14 audits.

When issues are identified, the financial audit team will issue a management letter to the secretary of a portfolio department, as the accountable officer, listing details of the issues. Internal control weaknesses reported to the secretary should be actioned and resolved in a timely manner.

There were 65 internal control weaknesses in total that were identified and reported to secretaries at the nine portfolio departments in 2012–13 that remained unresolved at the time of the 2013–14 audits. Forty-seven of these weaknesses were rated as high or medium risk. This lack of timely resolution means that the control frameworks in place at the portfolio departments are not as effective as they should be, and management should seek to address all the issues raised on a timely basis.

During the 2013–14 financial audits, common control weaknesses identified across the nine portfolio departments were related to information technology, account reconciliations and maintaining key policy documents. These were all identified as common weaknesses in the previous year.

2.6.1 Information technology

Information security is important for protecting information technology (IT) applications, infrastructure and information from threats, in order to enable business continuity and minimise risks. Effective IT security controls mitigate the risks that information will be inappropriately released and that information will be incomplete, unreliable or inaccurate.

Six of the nine portfolio departments had common IT issues in 2013–14. These issues related to:

- user access and password management
- system change management procedures
- disaster recovery arrangements
- IT strategic plans
- IT network and system penetration testing.

A lack of monitoring of these issues over an extended period of time may compromise the security of information and expose the portfolio departments to internal and external threats. Resolving these issues can reduce risks to the ongoing operations of the departments.

Our October 2014 report, *Information and Communications Technology Controls Report 2013–14*, provides further information regarding these IT general controls issues.

2.6.2 Account reconciliations

A financial report is prepared from information captured in an entity's financial system. Balances within the system are supported by various sources of information. Periodic reconciliation of these balances confirms the completeness and accuracy of data.

The timely preparation and independent review of reconciliations decreases the risk that errors remain undetected or are not resolved in a timely manner.

Three of the nine portfolio departments had deficiencies in relation to the preparation and review of key reconciliations. While critical departures from expected practices were not identified, their processes surrounding the timely preparation, review and approval of account reconciliations could be improved.

2.6.3 Policies and procedures

Most departments had documented policies and procedures for their key financial processes, however deficiencies identified included:

- the timeliness of policy document reviews
- the establishment of policies regarding ex-gratia payments
- non-compliance with policies
- excessive annual leave balances.

All of the nine portfolio departments have had staff with excessive annual leave balances for a number of years. This is inconsistent with departmental policies and may reduce the effectiveness of key internal controls and is also generally considered to be an increased fraud risk.

Portfolio departments should ensure policy and procedure documents are regularly reviewed and complied with.

Recommendations

1. That the State of Victoria's Annual Financial Report be subject to review by an independent audit committee.
2. That the Financial Reporting Directions and Standing Directions under the *Financial Management Act 1994* be applicable to the State of Victoria's Annual Financial Report.
3. That the Treasurer of Victoria signs the certification of the State of Victoria's Annual Financial Report.

That portfolio departments and associated entities:

4. review their financial reporting processes to address the better practice financial reporting elements identified in this report, including the preparation of shell financial statements
5. address identified internal control issues in a timely manner
6. through audit committees, implement appropriate monitoring mechanisms to ensure audit findings are resolved by management on a timely basis.

3 Financial sustainability risks of self-funded entities

At a glance

Background

In this Part we review the financial sustainability risks of 45 self-funded entities. These entities generate the majority of their revenue from their own operations, rather than depending upon government funding.

The self-funded entities should aim to generate sufficient revenue from their operations to meet their financial obligations and to fund asset replacement.

Conclusion

A review of state entities that have been rated as high risk for each of the past five years indicates that it is difficult for these entities to set their fees and charges at a level that would enable them to generate enough revenue to meet their obligations as they fall due, and to ensure the long-term maintenance of their assets. Over the long term, such financial challenges may reduce the service potential of assets and consequentially, reduce the services that can be provided to the community.

Findings

- Fifteen of the 45 self-funded entities assessed in 2013–14 were rated as having a high financial sustainability risk, compared with 12 in 2012–13.
- High-risk entities are not generating enough revenue to fund their depreciation costs, which means they may not be able to renew their assets as required to continue offering services to the community.
- Eight self-funded entities have been rated as high risk in each of the past five years.

Recommendation

That the Department of Treasury and Finance works with self-funded entities to review their underlying pricing model, and sources of funding, in order to improve their long-term financial sustainability.

3.1 Introduction

In this Part we review the financial sustainability of entities that primarily generate revenue from their own operations, rather than depend upon government funding. Forty-five entities have been identified as being self-funded in 2013–14, compared with 47 in 2012–13.

The nine portfolio departments and the other entities predominately funded through government grants have been excluded from this assessment. The financial sustainability of public hospitals, local government, water and tertiary education entities is assessed and reported to Parliament in our sector-specific reports, the details of which can be found in Appendix A.

Self-funded entities should aim to generate sufficient revenue from their operations to meet their financial obligations, and to fund asset replacement and asset acquisitions. Their ability to do this depends largely on their expenditure and revenue management practices, which are reflected in the composition and rate of change of their operating revenue and expenses.

3.2 Conclusion

There has been a deterioration in the financial sustainability of the self-funded entities over the past five years. Fifteen, or 33 per cent, of the 45 entities assessed in 2013–14 were rated as having a high financial sustainability risk, compared with 26 per cent in 2012–13.

A review of state entities that have been rated as high risk for each of the past five years indicates that many may not be able to set their fees and charges at a level that would enable them to generate enough revenue to meet their obligations as they fall due and ensure the long-term maintenance of their assets. In many cases, if these entities were to set their prices at a point that would allow them to do this, the community may not use the services available.

If these entities are to be financially sustainable over the long term, the underlying pricing model used to generate revenue may need amendment, another funding source may need to be found or additional government support may be required. The Department of Treasury and Finance should work with self-funded entities to try to find an appropriate balance between the fee-setting model and their ability to improve their long-term financial sustainability.

3.3 Financial sustainability risks

We analysed the financial trends and patterns of the self-funded entities by examining four core indicators over a five-year period. The indicators used were the underlying operating result, liquidity, self-financing and capital replacement, as they reflect an entity's funding and expenditure policies, and indicate whether the policies are financially sustainable.

Financial sustainability should be viewed from both the short- and long-term perspective. The short-term indicators, in this case, the underlying operating result and liquidity indicators, measure an entity's ability to maintain adequate liquid assets, and to generate an operating surplus over the short term. The long-term indicators, that is, the self-financing and capital replacement indicators, identify whether adequate funding is available and being spent on asset renewal to maintain the quality of service delivery, and to help meet community expectations and the demand for services.

Appendix B describes the financial sustainability indicators, risk assessment criteria and the benchmarks we use in this report. Figure B4 in Appendix B provides the results of our analysis for each of the 45—47 in 2012–13—self-funded entities as at 30 June 2014.

Financial sustainability risks assessments 2009–10 to 2013–14

We have published a financial sustainability analysis for self-funded entities annually since 2008–09 in this report.

Figure 3A provides a summary of the financial sustainability results of self-funded entities in each of the five years since 2009–10.

Figure 3A
Financial sustainability risk assessment, 2009–10 to 2013–14

Risk rating	2009–10	2010–11	2011–12	2012–13	2013–14
High	11 (24%)	12 (27%)	13 (29%)	12 (26%)	15 (33%)
Medium	21 (47%)	20 (43%)	16 (34%)	16 (34%)	20 (45%)
Low	13 (29%)	14 (30%)	17 (37%)	19 (40%)	10 (22%)
Total	**45**	**46**	**46**	**47**	**45**

Source: Victorian Auditor-General's Office.

The number of entities rated as having a high financial sustainability risk has been increasing since 2009–10.

A major driver behind the number of entities recording high-risk financial sustainability indicators is the difficulty in setting their fees and charges at a level that would enable them to meet their obligations as they fall due and ensure the long-term maintenance of their assets. In many cases, if self-funded entities were to set their prices at a point that would allow them to do this, they may experience a reduction in public demand for their services.

The Department of Treasury and Finance should work with self-funded entities to find an appropriate balance between the fee-setting model and the ability for self-funded entities to improve their financial sustainability.

3.4 High-risk entities

Figure 3A indicates that there has been a deterioration in the financial sustainability of self-funded entities. A total of 15 of 45, or 33 per cent of entities were assessed as having a high financial sustainability risk in 2013–14, compared with 26 per cent in 2012–13.

This deterioration is due in part to the way these entities charge for their services. Given the nature of these entities, their governing boards and trusts have a limited ability to improve their financial sustainability. These entities may be unable to generate enough revenue to cover costs, including the long-term maintenance of their major assets, as measured by depreciation. This potentially compromises the services that they will be able to offer the public in future years.

The following entities have been rated as having a high financial sustainability risk in each of the five years since 2009–10:

- Docklands Studios Melbourne Pty Ltd
- Fed Square Pty Ltd
- Melbourne Convention and Exhibition Trust
- State Sport Centres Trust
- Victorian Arts Centre Trust
- Geelong Performing Arts Centre Trust
- Melton Entertainment Trust
- Port of Melbourne Corporation.

A detailed analysis of each of these entities follows.

The financial sustainability indicators for the 45 self-funded entities are set out in Appendix B.

3.4.1 Docklands Studios Melbourne Pty Ltd

Docklands Studios Melbourne Pty Ltd provides film and television studio facilities for hire. Dockland Studios has been rated high risk for the past five years, mainly due to significantly unfavourable underlying operating results, as shown in Figure 3B.

Figure 3B
Financial sustainability results 30 June 2014 – Docklands Studios Melbourne Pty Ltd

	Underlying result (%)	Liquidity	Self-financing (%)	Capital replacement	Overall sustainability
Docklands Studios Melbourne Pty Ltd	-57.20%	6.32	19.02%	0.04	●

Source: Victorian Auditor-General's Office.

The Docklands Studios has recorded a deficit in each of the past five years. In four of those they reported a deficit greater than 50 per cent of revenue. The deficit in 2013–14 was $1.9 million, compared with $1.5 million in 2012–13, and depreciation expenses were $2.3 million, compared with $2.0 million in 2012–13. This, combined with an unfavourable capital replacement indicator, indicates that the Docklands Studios may have insufficient revenue to renew their assets as required. This indicates that the Docklands Studios has short- and long-term financial challenges.

3.4.2 Fed Square Pty Ltd

Fed Square Pty Ltd has also been rated as a high risk for the past five years. In 2013–14, it reported a deficit of $6.6 million and incurred depreciation expenses of $11.7 million. Fed Square Pty Ltd continues to have short- and long-term sustainability issues, as shown in Figure 3C.

Figure 3C
Financial sustainability results 30 June 2014
– Fed Square Pty Ltd

	Underlying result (%)	Liquidity	Self-financing (%)	Capital replacement	Overall sustainability
Fed Square Pty Ltd	-27.84%	3.38	18.15%	0.26	●

Source: Victorian Auditor-General's Office.

3.4.3 Melbourne Convention and Exhibition Trust

The Melbourne Convention centre opened in 2009 as a public private partnership (PPP). The private sector partner designed, constructed and financed the centre. The private sector partner will also maintain the centre for 25 years, after which time it will be returned to the state.

The Melbourne Convention and Exhibition Trust (MCET) is to meet half the costs of the PPP by repaying a $227.7 million loan to the former Department of State Development, Business and Innovation. The loan will be repaid over the period of the PPP. At 30 June 2014 approximately $200 million of this amount was still outstanding.

The underlying operating result for MCET continues to record a deficit. In 2013–14 it recorded a deficit of $18.6 million, which compares to a deficit of $28.7 million in 2012-13. The depreciation expense for 2013–14 was $23.1 million, compared with $27.0 million in 2012–13. The indicators shown in Figure 3D indicate short- and long- term financial challenges for MCET.

Figure 3D
Financial sustainability results 30 June 2014
– Melbourne Convention and Exhibition Trust

	Underlying result (%)	Liquidity	Self-financing (%)	Capital replacement	Overall sustainability
Melbourne Convention and Exhibition Trust	-34.56%	1.92	15.42%	0.17	●

Source: Victorian Auditor-General's Office.

3.4.4 State Sport Centres Trust

The State Sport Centres Trust (SSCT) is a statutory authority which governs the Melbourne Sports Hub's four venues—the Melbourne Sports and Aquatic Centre (MSAC), the State Netball Hockey Centre, Lakeside Stadium and the MSAC Institute of Training.

As at 30 June 2014, SSCT's financial sustainability risks had not improved. SSCT reported a deficit of $9 million, compared with $6.7 million in 2012–13. This result included operating and capital funding of $8.1 million and depreciation expenses of $8.9 million. SSCT has also had an unfavourable liquidity indicator for the previous two financial reporting periods. As we have noted in previous years reports, SSCT does not have the ability to generate sufficient revenue to renew its asset base, which was $337.5 million at 30 June 2014—$323 million at 30 June 2013.

Figure 3E
Financial sustainability results 30 June 2014
– State Sport Centres Trust

	Underlying result (%)	Liquidity	Self-financing (%)	Capital replacement	Overall sustainability
State Sport Centres Trust	-35.14%	1.61	-6.80%	0.55	●

Source: Victorian Auditor-General's Office.

3.4.5 Victorian Arts Centre Trust

The Victorian Arts Centre Trust (VACT) manages key performance venues in Melbourne, including Hamer Hall, the Arts Centre and the Sydney Myer Music Bowl.

VACT has had a high sustainability risk for each of the past five years due to unfavourable underlying operating result, capital replacement and self-financing indicators. By not being able to generate enough revenue to fund the depreciation costs of assets, the ability of VACT to renew these assets as required is put at risk.

For the year ended 30 June 2014, VACT reported an operating deficit of $13 million—$22.6 million in 2012–13—which included $16 million of depreciation expenses—$15.4 million in 2012–13. While the short-term financial sustainability of VACT has improved over 2013–14, the entity continues to face major financial challenges, as shown in Figure 3F.

Figure 3F
Financial sustainability results 30 June 2014
– Victorian Arts Centre Trust

	Underlying result (%)	Liquidity	Self-financing (%)	Capital replacement	Overall sustainability
Victorian Arts Centre Trust	-30.87%	1.94	3.00%	0.52	●

Source: Victorian Auditor-General's Office.

3.4.6 Geelong Performing Arts Centre Trust

The Geelong Performing Arts Centre Trust (GPACT) manages the performing arts venue in Geelong, and, like the Victorian Arts Centre Trust, has received a high-risk rating due to unfavourable underlying operating result and self-financing indicators.

As with VACT, GPACT is not generating enough income to cover its depreciation expenses. For the year ended 30 June 2014, GPACT reported an operating deficit of $0.98 million, which included $1.03 million of depreciation expenses. Again, this means that GPACT may not be able to renew their assets as required, potentially impacting the services it is able to offer.

Figure 3G
Financial sustainability results 30 June 2014
– Geelong Performing Arts Centre Trust

	Underlying result (%)	Liquidity	Self-financing (%)	Capital replacement	Overall sustainability
Geelong Performing Arts Centre	-22.41%	2.07	1.65%	1.71	●

Source: Victorian Auditor-General's Office.

3.4.7 Melton Entertainment Trust

The Melton Entertainment Trust (MET) operates the Harness Racing and Entertainment Complex (Tabcorp Park), situated in Melton which includes a harness racing track, hotel, bar, function centre, gaming and wagering facilities.

MET has had a high financial sustainability risk for each of the past five years due to unfavourable liquidity and self-financing ratios. MET has also reported operating losses in each of the past five years, generating an operating deficit of $0.84 million in 2013–14—$0.32 million in 2012–13. The depreciation expense for 2013–14 was $0.28 million—$0.22 million in 2012–13.

MET has had a liquidity issue in each of the past five years as well as a high sustainability risk for the self-financing indicator. This indicates that MET may have difficulty replacing assets using cash generated by operations.

MET's financial sustainability indicators for the year ending 30 June 2014 are shown in Figure 3H.

Figure 3H
Financial sustainability results 30 June 2014
– Melton Entertainment Trust

	Underlying result (%)	Liquidity	Self-financing (%)	Capital replacement	Overall sustainability
Melton Entertainment Trust	-4.10%	0.73	1.03%	0.91	●

Source: Victorian Auditor-General's Office.

3.4.8 Port of Melbourne Corporation

The Port of Melbourne Corporation (PoMC) has had high financial sustainability risks for each of the past five years due to its unfavourable liquidity ratio.

At 30 June 2014, PoMC held current assets of $76.1 million—$72.6 million at 30 June 2013—and current liabilities of $188.5 million—$122.3 million at 30 June 2013. The increase in liabilities is driven by new borrowings, and the refinancing of short-term borrowings, to fund the Port Capacity Project which is discussed in Part 8 of this report. PoMC's liquidity ratio suggests that the entity could potentially not meet its short-term financial obligations, as they fall due. PoMC did record positive operating cash flows of $130.7 million for 2013–14—$116.2 million in 2012–13.

At 30 June 2014, PoMC reported an operating surplus after income tax of $72.8 million, compared with $65.9 million at 30 June 2013. It generated $368.4 million in revenue and had operating expenses of $295.6 million, including $73.6 million of depreciation. Over the long term, our indicators of financial sustainability—self-financing and capital renewal indicators—show a low financial sustainability risk, as illustrated in Figure 3I.

Figure 3I
Financial sustainability results 30 June 2014 – Port of Melbourne Corporation

	Underlying result (%)	Liquidity	Self-financing (%)	Capital replacement	Overall sustainability
Port of Melbourne Corporation	19.22%	0.57	36.87%	1.50	●

Source: Victorian Auditor-General's Office.

In May 2014, the then state government announced that they would enter into a medium-term lease of the Port of Melbourne. However, this will depend upon the final policy position of the new state government.

Recommendation

7. That the Department of Treasury and Finance works with self-funded entities to review their underlying pricing model and sources of funding, in order to improve their long-term financial sustainability.

4 Internal audit

At a glance

Background

Internal audit is a key mechanism available to help management discharge their governance and oversight responsibilities. Internal auditors can review and appraise internal controls, as well as identify areas of risk within an entity.

This Part presents the results of our assessment of the internal audit functions across the nine portfolio departments.

Conclusion

Internal audit functions across the portfolio departments were generally sound. However, improvements can be made to strengthen these functions. Portfolio departments' expenditure on internal audit has reduced since 2011–12, despite significant operational changes impacting their risk profiles over the same period, indicating that portfolio departments may be treating internal audit as discretionary and non-essential in nature.

Findings

- Departments have established internal audit charters but these can be improved.
- Some outsourced internal audit providers undertake other consulting work for their portfolio department in addition to the provision of the internal audit function. In 2013–14, the additional fees charged for this work exceeded the actual annual internal audit fee at five portfolio departments.
- The average annual expenditure on internal audit has reduced by approximately 8 per cent since 2011–12 across all of the nine portfolio departments. At the same time, operating expenditure across the portfolio departments has increased by approximately 2 per cent, and the departments have encountered significant operational changes.

Recommendation

That portfolio departments improve and document processes for the assessment and mitigation of potential conflicts of interest of internal auditors and ensure this is not compromised when engaging internal audit to perform additional services.

4.1 Introduction

Internal audit is a key mechanism available to help the secretaries of portfolio departments discharge their governance and oversight responsibilities. Internal auditors can review and appraise internal controls and identify areas of risk or weakness within an entity, providing assurance to the secretary and management on the operational effectiveness of key controls.

An effective internal audit function strengthens internal controls, adding credibility to both financial and non-financial information, as well as improving the efficiency of key controls and processes.

The *Financial Management Act 1994* (FMA) and the Standing Directions of the Minister for Finance under the FMA (the Standing Directions) require public sector agencies to establish and maintain an adequately resourced internal audit function as part of their system of internal control.

4.2 Internal audit functions

All of the portfolio departments maintained an internal audit function during the financial year.

4.2.1 Key elements of an internal audit function

Key elements of an effective internal audit function are detailed in Figure 4A. This framework draws on the Standing Directions and the Australian National Audit Office's better practice guide *Public Sector Internal Audit - an investment in assurance and business improvement, Better Practice Guide September 2012.*

Figure 4A
Key elements of an effective internal audit function

Key area	Best practice criteria
Policy	Policy established which requires an effective internal audit function to be in place. Established internal audit charter, which documents: • internal audit's objective, roles and responsibilities • a requirement for internal audit to be independent of the agency • clear reporting lines between internal audit, senior management, the secretary and the audit committee • communication protocols • that the internal audit function will have full, free and effective access at all reasonable times to all records, documents and employees of the public sector agency and the right to seek information and explanations • independence requirements for internal audit • arrangements for reporting conflicts of interest • the role of internal audit in relation to fraud control • that the performance of internal audit be assessed annually • the method for selecting the internal audit service provider, if applicable. Compliance with the *Financial Management Act 1994* and *Standing Directions of the Minister for Finance.* Periodic review of the internal audit charter. Policy and charter appropriately reviewed and approved.
Management practices	Comprehensive audit plan developed for a minimum three-year period that is directly linked to the identified risks of the entity. Internal audit plan should: • be reviewed and approved by the audit committee • be risk based and in line with the entity's risk management plan • distinguish between performance, compliance and other reviews • detail the objective of each review • include an estimate of the resources required to complete each review • outline the proposed timetable. Internal audit plan should be available to all stakeholders and staff. Ensure the head of internal audit is sufficiently senior to be an accepted element of the portfolio department's governance arrangements. Communication between internal audit and external audit is adequate. Regular reporting to the audit committee and Secretary.
Governance and oversight	Charter reviewed by the audit committee, and approved by the Secretary. Annual review of internal audit performance by the audit committee. Regular reporting to the audit committee on: • time lines for completion and internal audit projects • scope and progress of audits currently being conducted • deviations from internal audit plan—including cost overruns or unmet deadlines • any conflicts of interest to be declared. Action taken to address issues identified by internal audit is monitored by the audit committee and senior management including the secretary.

Source: Victorian Auditor-General's Office.

These elements were considered as part of our review of the internal audit function at the nine portfolio departments.

Sourcing internal audit

Seven of the nine portfolio departments have outsourced their internal audit function. One department maintains the function internally and one department has co-sourced arrangements in place—where the internal audit function is provided by a combination of internal staff and outsourced providers.

Conclusion

The internal audit functions across the nine portfolio departments were generally sound. All the departments had policies in place and internal audit reported regularly to the audit committee. All portfolio departments had internal audit functions that reflected many of the better practice elements. Nevertheless, there are opportunities for improvement across the portfolio departments.

The average annual expenditure on internal audit has reduced by approximately 8 per cent since 2011–12 across all of the nine portfolio departments. At the same time, operating expenditure across the portfolio departments has increased by approximately 2 per cent and the departments have encountered significant operational changes impacting their risk profiles over the same period, indicating that portfolio departments may be treating internal audit as discretionary and non-essential in nature.

4.3 Policy

The Standing Directions require public sector entities to have an internal audit charter in place that is approved by the audit committee.

The portfolio departments' internal audit charters generally conformed to the Standing Directions and the better practice elements outlined in Figure 4A by including the following:

- internal audit's role and responsibilities
- reporting lines from internal audit to management and the audit committee
- independence requirements for internal audit
- ensuring the internal audit function had direct access to the Secretary
- ensuring the internal audit function had open access to documents, records and employees.

The following better practice elements were not well addressed and could be improved by many of the portfolio departments:

- specifying the role of internal audit in relation to fraud control, this may include reference to another fraud control policy or framework
- outlining the process for selecting an internal audit service provider
- specifying that the performance of internal audit be assessed annually.

By defining a clear role for internal audit in the mitigation and identification of potential fraud, portfolio departments would be increasing their assurance that key fraud prevention controls are operating effectively.

4.4 Management practices

Each of the portfolio departments had developed an internal audit program outlining what was to be audited and there was regular reporting to the audit committee and Secretary on the status of recommendations.

4.4.1 Internal audit plans

All nine portfolio departments developed and prepared internal audit plans on an annual basis. These were presented to each respective audit committee for approval. Information provided to the audit committees was comprehensive and sufficient to allow each committee to form an assessment.

The Standing Directions state that an internal audit plan must be approved by the audit committee and address relevant elements of the agency's risk profile. All nine portfolio department's internal audit functions used the departmental risk register in aiding them to prepare an internal audit plan.

Internal audit plans typically included relevant better practice elements pertaining to resources, scope, timing and budget.

4.4.2 Independence of internal audit

A key aspect of the internal audit function is its independence from the entity's staff and operations, which enables it to provide objective advice and assurance to the audit committee, Secretary and management. While a potential conflict of interest may not be cause for concern, the internal audit charter should outline processes to ensure the audit committee is made aware of any potential conflict of interests and that these are appropriately assessed. The charter should outline actions to be taken to mitigate the conflict, if required.

The head of internal audit at all portfolio departments had direct reporting lines to the audit committee. At six of the nine portfolio departments, the head of internal audit also had direct reporting lines to the departmental Secretary.

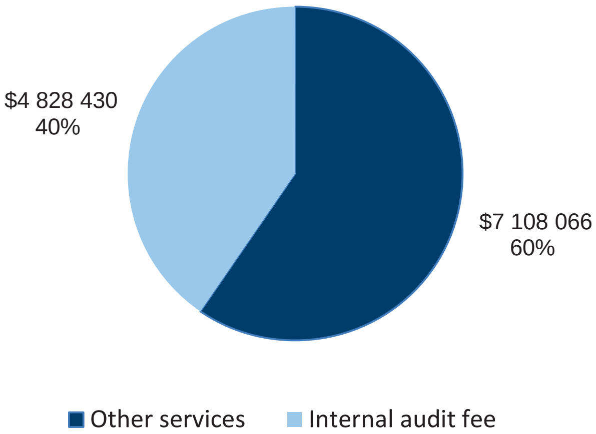
The Standing Directions require management to provide internal audit with full, free and effective access to records, documents and employees. All of the nine portfolio departments were compliant with this direction.

Additional services provided by outsourced internal audit providers

Eight of the nine portfolio departments outsourced some, or all, of their internal audit function to external service providers. Six of these eight portfolio departments engaged their outsourced internal audit providers to perform other work, in addition to their internal audit role. These additional services generally include commercial, strategic and consulting advice. Five of the departments spent more on these additional services than on the internal audit fee.

Figure 4B compares the total value of the additional work carried out by these providers against the total internal audit fee at these six portfolio departments.

Figure 4B
Comparison of additional services provided by outsourced internal auditors against the internal audit fee, year ended 30 June 2014



Source: Victorian Auditor-General's Office.

Better practice suggests that internal auditors must maintain objectivity and ensure no perceived or actual conflicts of interest exist between their primary role as the internal auditor and the additional work conducted. The additional fees paid to outsourced internal audit providers at these departments could potentially be perceived as a conflict of interest risk. Portfolio departments should take due care before engaging an existing internal audit provider to perform additional work, outside the agreed scope of internal audit to ensure there is adequate transparency in reporting to the audit committee. This should include ensuring there are no conflicts of interest, there is adequate scrutiny of contract scope and that appropriate segregation of duties controls are in place.

We noted that where the internal audit providers are engaged in additional work, portfolio departments generally had processes in place to mitigate any potential conflicts of interest. This included the internal auditor reporting on the scope and cost of any additional work to the audit committee, and declarations to the committee and secretary regarding any conflicts of interest that have arisen.

4.5 Governance and oversight

The internal audit governance arrangements at the nine portfolio departments are generally sound and robust.

4.5.1 Internal audit performance assessment

The Standing Directions and better practice criteria set out the responsibilities of audit committees. These include monitoring management actions to resolve any issues raised by internal audit and reviewing the performance of the internal audit function.

All of the portfolio departments audit committees monitor actions taken by management to resolve the issues raised by internal audit. This is usually undertaken through the maintenance of an issues register which ranks issues based on risk and assigns a responsible member of staff to address the issue.

Each portfolio department’s audit committee reviews the performance of their internal audit function annually. The intensiveness of these reviews, the nature of the key performance measures applied, and the reporting regimes vary.

Key performance measures

Performance evaluations against key performance measures is an effective way of ensuring an internal audit function maximises its value. All portfolio departments audit committees assessed their internal audit function against a set of key performance indicators (KPIs). The suite, range and detail of the KPIs varied. While some departments measured their internal audit function against 20 specific KPIs, others measured performance against a handful of broad KPIs. In each case the measures appeared relevant and appropriate to the department.

As part of this review, the KPIs used by audit committees were compared to the requirements of the Standing Directions and the Australian National Audit Office's *Public Sector Internal Audit - an investment in assurance and business improvement, Better Practice Guide September 2012.* The better practice KPIs are:

- timeliness and cost of internal audits commensurate with the objectives or benefits of the internal audit
- acceptance of recommendations made by internal audit
- quality of assurance reviews, advisory services and internal audit support activities, including stakeholder satisfaction
- progress in delivery of the approved program
- internal audit staff qualifications and professional development
- internal audit staff satisfaction
- the overall contribution made by the internal audit function.

Most of these KPIs were included within each portfolio department's performance reporting regime.

The KPIs that were least used by portfolio departments include:

- acceptance of recommendations made by internal audit
- internal audit staff qualifications and professional development
- internal audit staff satisfaction.

Portfolio departments could improve their performance monitoring of the internal audit function by using more of the better practice key performance indicators.

Internal audit status report

Mature internal audit functions prepare regular status reports for presentation to the Secretary and audit committee. Such a report typically lists internal audit activities and achievements for the year against the approved plan and helps the audit committee comply with its governance and oversight obligations under the Standing Directions.

Five of the portfolio departments' internal audit functions currently produce an annual status report. The development of this report for each portfolio department would enhance the respective departmental audit committee's ability to discharge their governance responsibilities under the Standing Directions.

External assessment of internal audit

The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* require an external assessment of the internal audit function to be conducted at least once every five years by a qualified independent party from outside the organisation. As well as providing quality assurance over internal audit work, such external reviews allow an objective evaluation and scrutiny of all aspects of the internal audit function. Four of the portfolio departments had not commissioned an external assessment within the past five years.

4.6 Internal audit conduct

As part of this review, we identified key risk areas that are common across all nine portfolio departments. An analysis of the internal audit work that has been completed at each portfolio department over the past three years identified that:

- most departments gained assurance over key areas of focus and risk
- three departments did not review data quality
- two departments did not review their financial delegation controls
- eight departments did not review executive performance management and bonuses
- two departments did not review entertainment expenditure.

While any internal audit plan should be tailored to take into account the key risks at each individual portfolio department, it is of concern that only one of the nine portfolio departments looked at executive performance management and bonuses, especially given the significant risks to reputation and operations associated with inappropriate executive remuneration. Internal audit could provide an independent review of executive remuneration processes to ensure they are appropriate.

Education and competency

This review found that the professional qualification of internal audit staff was sound. Most internal audit staff had a professional accounting designation and the majority were members of the Institute of Internal Audit. In relation to information systems, the majority of internal auditors held Certified Information Systems Auditors qualifications.

Internal auditors working at portfolio departments generally had more than five years internal audit experience.

4.7 Spending on internal audit

The past three years have been a period of significant change within portfolio departments, with key initiatives such as the former government's Sustainable Government Initiative reducing staff numbers and implementing cost savings. Additionally, the recent machinery of government changes have led to structural and procedural changes across a number of portfolio departments.

Change on this scale increases the risk that key controls may not work as intended, that a fraud or error may occur, and that material misstatements may be recorded in the financial statements. Alongside other assurance reviews, such as safety or environmental audits, the internal audit function is a key tool to assist senior management in maintaining the governance structure required to mitigate these issues, and to provide assurance that the changes have not weakened key controls.

The average annual expenditure on internal audit has reduced by approximately 8 per cent since 2011–12 across all of the nine portfolio departments. At the same time, operating expenditure across the portfolio departments has increased by approximately 2 per cent over the same period, and the departments have encountered significant operational changes.

The average amount spent on internal audit, annually, by all departments over 2012–13 and 2013–14 was $826 654. That is, on average, 0.02 per cent of their total operating expenditure. The range of spending by individual portfolio departments varied between 0.01 per cent and 0.18 per cent of total operating expenditure.

By way of comparison, the November 2013 Queensland Audit Office report *Results of audits: Internal control systems* identified that the average internal audit budget at the 20 Queensland departments was 0.13 per cent of total operating expenditure. While the optimal expenditure on an internal audit function will vary depending on the nature and risk profile of an entity's operations, this analysis casts doubt over the recent trends in spending on internal audit.

Reduced spending on internal audits and the potential reduction in internal audit coverage of the portfolio department functions is concerning, and indicates that the portfolio departments may be treating internal audit as discretionary and non-essential in nature. It should not be viewed as a potential source for cost savings, but as a source of assurance and improvement—particularly regarding the processes associated with the department's changing functions.

Recommendations

That portfolio departments:

8. improve and document processes for the assessment and mitigation of the potential conflicts of interest of internal auditors, and ensure that this is not compromised when engaging internal audit service providers to perform additional services
9. improve the key performance measures used to review the internal audit function, and utilise these to conduct regular assessments of the function
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.

5 Prudential supervision

At a glance

Background

The *Prudential insurance standards for Victorian Government insurance agencies* (the Standard), issued by the Department of Treasury and Finance (DTF), establishes a policy framework for the prudential management of Victoria's insurance schemes. The Standard specifically applies to the Transport Accident Commission, the Victorian WorkCover Authority and the Victorian Managed Insurance Authority (the agencies).

In this Part we report on DTF's processes for gaining assurance over the reliability of each agency's annual attestation of compliance with the Standard and each agency's verification processes supporting their attestation of compliance with—and any disclosures made relating to—the Standard.

Conclusion

DTF and all insurers have processes in place to implement and gain assurance over compliance with the Standard. However, improvements can be made.

Findings

DTF's supervision of the agencies' compliance with the Standard is relatively 'light touch' and relies primarily on the annual compliance certifications of the agencies. It does not verify the accuracy of the certifications, nor does it engage an independent auditor to review the attestations.

All agencies have similar policies and procedures in place to address the requirements of the Standard.

Recommendations

- That DTF appoints an independent prudential auditor to review compliance with the Standard by the insurance agencies.
- That DTF provides additional guidance regarding the level and frequency of insurance agency internal audit programs relating to prudential management.
- The Victorian WorkCover Authority engages its internal auditors to conduct an annual assessment of its compliance with the Standard.

5.1 Introduction

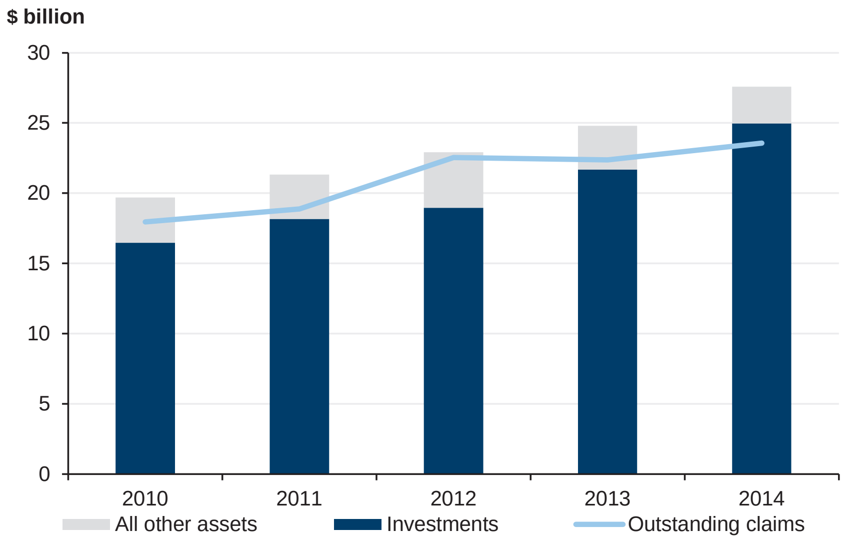
The Victorian public sector includes three significant insurance agencies that provide insurance services, collect premiums and commit to meeting the state's liability for claims. These insurance agencies are the Victorian WorkCover Authority (VWA), the Transport Accident Commission (TAC) and the Victorian Managed Insurance Authority (VMIA).

The VWA is responsible for workers' compensation insurance in Victoria, TAC is responsible for compulsory third-party motor vehicle insurance in Victoria and VMIA is responsible for the Victorian government's general insurance requirements.

At 30 June 2014 these three agencies held total assets of $27.6 billion compared with $24.8 billion at 30 June 2013, and held total liabilities of $25.2 billion—$23.9 billion at 30 June 2013. Approximately 91 per cent of these assets are held in investments. Approximately 94 per cent of the total liabilities are in relation to outstanding insurance claims.

Figure 5A sets out the investments, total assets and outstanding insurance claims held by all three insurance agencies. It highlights that assets held have been higher than total claim liabilities in each of the past five years.

Figure 5A
Assets and outstanding claim liabilities of state insurance agencies 2009–10 to 2013–14



Source: Victorian Auditor-General's Office.

Given the scale, nature, complexity and uncertainty of the valuation of these assets and liabilities it is critical that these agencies are prudentially managed to:

- ensure the schemes are viable and have sufficient assets to fund liabilities
- safeguard the interests of policyholders and claimants
- minimise the risk of any adverse impact on the state's financial position.

5.2 Prudential Insurance Standards

In September 2010, the Department of Treasury and Finance (DTF) issued the *Prudential insurance standards for Victorian Government insurance agencies* (the Standard). The Standard complements existing requirements of the *Public Administration Act 2004* and the *Financial Management Act 1994* and together these form a prudential supervision framework (the Framework) that applies to the insurance agencies.

The Standard is broadly based on the Australian Prudential Regulation Authority's (APRA) standards. It should be noted that recent updates by APRA to their prudential standards are currently being reviewed by DTF, and changes to the DTF Standard are being considered. This Part reviews elements of the framework in place for the agencies and DTF as at 30 June 2014.

The Standard requires the insurance agencies to develop and implement policies addressing key risk management and operational areas—including capital management, premium pricing, investment objectives and reviewing liability values.

The Standard assigns accountability to the board of directors of each insurance agency to ensure the appropriate application of, and compliance with, the Standard. Each board is required to take reasonable steps to satisfy themselves that the Standard has been properly implemented.

The assigned responsibility for each board of directors covers:

- the development and implementation of appropriate policies and procedures to ensure compliance with the Standard
- the requirement to annually verify and attest to DTF that each agency has appropriate governance, risk and prudential management arrangements in place
- an obligation to report to DTF, in a timely manner, any events that affect the application of the Standard
- appointing an external actuary.

The Standard designates DTF as the prudential supervisor. In this role, the Standard specifies that DTF is responsible for the development and maintenance of the Standard, but is not expected to undertake intrusive supervision to ensure compliance. Under the Standard, DTF has the authority to investigate, or require the investigation of, compliance with the Standard as appropriate.

The Standard requires each agency's board of directors to submit an annual attestation to DTF confirming that they have complied with the requirements of the Standard. The annual attestation should provide assurance to DTF that the insurance agencies have appropriate governance arrangements in place and are financially viable. Our review considered DTF's processes for gaining assurance over the reliability of the agency's annual attestation of compliance with the Standard. It also considered each agency's verification processes supporting their attestation of compliance with the Standard, and any of their disclosures made relating to it.

Capital adequacy

The fundamental objective of the Standard is to ensure capital adequacy for public sector insurers, so that the insurance schemes do not adversely impact on the state's finances.

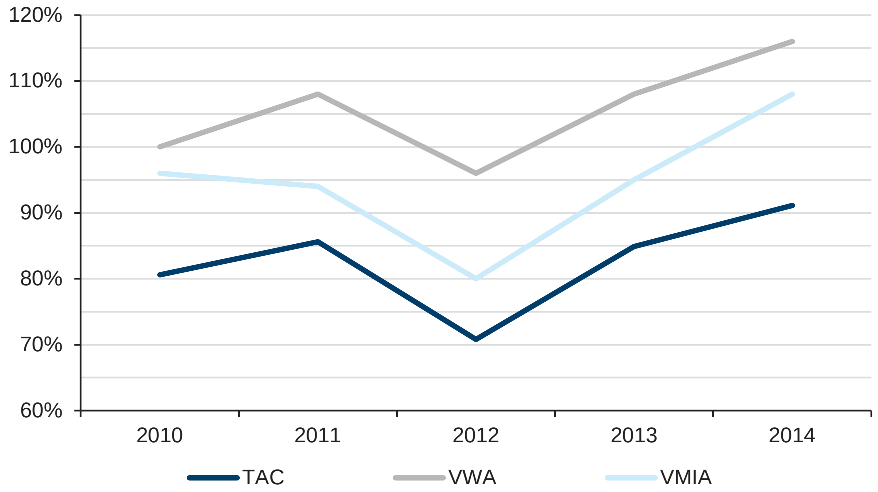
DTF sets capital adequacy parameters for the insurers, which dictate capital policies and activity levels. The minister provides each insurer with a Risk Preference Statement, which specifies a number of risk preferences including:

- preferred funding ratio range and target levels between 80 and 120 per cent—the funding ratio is essentially calculated as scheme assets divided by scheme liabilities
- funding risk appetite—in terms of the probability that agencies funding ratio will fall below the mid-point of the target range in any one year
- the discount rate to be used in valuing scheme liabilities
- the government's dividend requirements for each agency.

Figure 5B, shows that for the past five years agency funding ratios have generally been within the preferred funding ratio range—aside from the 2011–12 financial year where both the TAC and VMIA ratios fell below the low point of the range. This was largely due to reductions in market values, which in turn reduced the value of assets held. Where this occurs, the Standard requires agencies to submit a capital management plan to the Minister for Finance that aims to move the funding ratio back to the preferred funding range over a five-year period.

TAC has been the only agency to fall outside the range on more than one occasion since 2010, however, it has implemented plans to improve its position—with evident improvement in 2012–13 and 2013–14.

Figure 5B
Funding ratios, 2009–10 to 2013–14



Source: Victorian Auditor-General's Office.

An adverse trend in agency funding ratios is not immediately catastrophic because the schemes largely comprise ‘long tail’ liabilities—liabilities where claims are not settled for potentially many years after the expiration of the policy—and are supported by significant annual premium cash flows and asset portfolios. It is also noted that agency funding ratios are very sensitive to investment returns—as influenced by financial markets—and key valuation assumptions, such as discount rates.

All three state insurance agencies have a committee in place to annually endorse a capital management work plan that details the criteria to effectively monitor and ensure compliance with the Standard, as well as reviewing the agency's prudential insurance policies.

The annual financial audit of the agencies' financial statements does not provide assurance on the long-term viability of the schemes.

5.3 Attestation process

Each agency's annual attestation to DTF is expected to certify that it has maintained appropriate policies and practices to ensure compliance with the Standard. The annual attestation also certifies that the agency has critically reviewed its compliance with the Standard within the past twelve months. The annual attestation is required to be provided by the board of directors and chief executive officer.

In order to certify the annual attestation, agency boards need to ensure they have appropriate arrangements in place. Each agency has implemented processes to provide their respective board of directors with assurance regarding the annual attestation. Details of these processes follow.

5.3.1 Policies

The Standard requires that each agency develops and implements financial policies relating to:

- liability reserving
- capital management
- pricing
- investment of assets
- reinsurance
- actuarial review.

The Standard requires that policies are reviewed at least once every five years. This requirement cannot be fully tested for compliance as the Standard has not yet been in place for five years. However, all three insurance agencies have review schedules in place that are expected to ensure compliance.

The prudential insurance policies at VWA and TAC were checked against the Standard when it was originally issued in 2010 and have not been subject to review since that time. These agencies do not re-check their policies unless the Standard is changed. The prudential insurance policies at VMIA have been reviewed and approved by the board on an annual basis since being developed in 2010.

5.3.2 Management and governance practices

In order to prepare and certify the annual attestation, each agency's board of directors needs to obtain reasonable assurance about their agency's compliance with the Standard. To this end, each agency has created a responsible committee or group and implemented processes for it to provide assurance to its board, though its audit and risk committees. These groups are the Capital Management Group at VWA and TAC, and the Capital Committee at VMIA (the capital committees).

The capital committees are responsible for:

- monitoring agency compliance with internal policies relating to the Standard
- preparing an annual compliance checklist
- providing evidence to support compliance with the Standard
- reviewing actions taken by management to ensure compliance.

The compliance checklist at each agency is aligned to the Standard and is periodically reviewed by their internal auditors as part of the prudential supervision audit.

Each insurance agency's audit and risk committee assesses management's assertions of compliance with the Standard—including reports from the capital committees and then provides recommendations to the each agency's board about the agency's compliance with Standard. The decision paper provided to these committees is typically accompanied by a management confirmation that the agency has established and maintained prudential policies consistent with the Standard, complied with all requirements of internal prudential policies and the Standard and subjected its compliance with the Standard to critical review within the past 12 months. The decision paper will also typically include a recommendation about the finalisation of the annual attestation. Complete documented evidence supporting this certification is not always included in the information provided to audit and risk committee.

Once the audit and risk committee has reviewed the prepared attestation, their recommendation is presented to the board of directors. This recommendation will not typically contain the compliance checklist or other detailed supporting evidence.

The agency boards are required to certify that their agency has established, and maintained, appropriate prudential policies and has complied with their policies and the Standard. The boards also have to verify that compliance with the Standard has been subject to critical review within the past 12 months

Boards seek information to detail that management assertions of compliance are well founded and supported by appropriate evidence—this includes periodic assurance from their internal audit function.

5.3.3 Internal audit

Each of the insurance agency's internal auditors review the effectiveness of management's underlying processes and the documented evidence that supports the agency's attestation of compliance with its prudential policies and the Standard.

TAC's internal auditors conduct these reviews annually. Its internal audit in August 2014 found that TAC had strong controls in place to meet the obligations of the Standard and found management to have undertaken a thorough compliance process.

VWA's last internal audit was performed in August 2014 with no adverse findings. As a result of consistent findings that VWA maintained strong controls, processes and practices regarding prudential supervision and in agreement with VWA's internal auditors, this review was moved to a three-year rotational plan. The maintenance of annual internal audits would assist in ensuring that VWA critically and independently reviews its compliance every 12 months—consistent with the requirements of the Standard.

VMIA's internal auditors conduct a review annually. The last internal audit was completed in August 2014. This review identified no issues and confirmed that VMIA had strong controls in place to meet its obligations under the Standard.

Conducting annual internal audits of the agency's attestation process would be consistent with the requirements of the Standard, however, the Standard does not mandate how frequently internal audits need to occur.

5.3.4 DTF overview and monitoring

In addition to the annual attestation received from the agencies, DTF has implemented other processes to gain some assurance over the reliability of their annual compliance with the Standard.

However, DTF’s position is that the agency boards are ultimately responsible for compliance with the Standard. This approach relies on agency boards exercising sufficient oversight to ensure that their organisations are prudently managed.

The supervision approach adopted by DTF is relatively ‘light touch’—it relies primarily on the annual compliance certifications of the agencies and does not verify the accuracy of those certifications. DTF does obtain some assurance through the review of quarterly reporting by agencies, reviewing corporate and business plans and gathering other information from each agency.

DTF also participates in regular meetings with the agencies regarding investment strategies and actuarial reviews.

An internal audit was commissioned by DTF in June 2013 to review the adequacy of the Standard and DTF’s actions to gain assurance that the Standard was complied with. Overall the internal audit found that the Standard and associated frameworks provided sound controls, however, two low-risk findings were identified. These findings noted that DTF should:

- formalise the monitoring processes and procedures guiding its staff as they execute their prudential duties—the lack of formalised procedures had led to inconsistent levels of documentation regarding work performed
- amend the Standard to bring it in line with other prudential standards in relation to the establishment and monitoring of risk management policies.

DTF accepted all of the recommendations made in the internal audit report and has undertaken the following actions:

- formal monitoring policies and processes to support the Standard have been developed and documented as a guide—under this guide a checklist is to be completed to assess if each agency fulfils its obligations under the Standard
- all processes are being reviewed for consistency and revised versions of the Standard have been drafted for consultation with the relevant agencies—the revised Standard is to reflect relevant APRA's standards for insurers.

In contrast to DTF's supervisory role over the insurance agencies, its prudential oversight of the Victorian Funds Management Corporation (VFMC) is more intensive. DTF not only receives compliance attestations from VFMC, but also engages a prudential supervisor who undertakes testing of the veracity and integrity of assertions VFMC provides. This includes testing substantive compliance with relevant requirements and undertaking direct reviews to gain assurance that VFMC has appropriate policies and processes in place to manage material risks.

DTF has not engaged an independent prudential auditor for the insurers, as insurance agency assets are managed by VFMC, and therefore the risks associated with their investment portfolios are effectively subject to a level of oversight by VFMC's prudential supervisor. This does not extend to consideration of capital adequacy or other key requirements of the Standard.

Additional testing of the insurance agencies' compliance with the Standard by a DTF appointed prudential auditor would provide significant and appropriate levels of assurance over compliance with the Standard. By comparison, APRA performs prudential reviews as part of its key supervisory activities to assess the effectiveness of processes and procedures at private sector insurers. A form of additional review by DTF would provide improved assurances regarding the prudential performance of the state's insurance agencies.

Recommendations

11. That the Department of Treasury and Finance strengthens 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 standards for Victorian Government insurance agencies.*
12. That the Department of Treasury and Finance provides additional guidance to insurers regarding the level and frequency of internal audits to be conducted at all insurers, to ensure a consistent and comprehensive approach.
13. That the Victorian WorkCover Authority engages its internal auditors to conduct an annual assessment of its compliance with the *Prudential insurance standards for Victorian Government insurance agencies,* to bring its practices in line with the better practice undertaken by the other insurers.

6 Infringements

At a glance

Background

Infringement notices are issued by enforcement agencies—such as Victoria Police—to persons who have committed an offence. In 2013–14, 3.1 million fines were issued for mobile and fixed traffic camera offences, tollway offences and 'on-the-spot' offences compared with 3.5 million in 2012–13. Fines can be cancelled, withdrawn or written off under certain circumstances.

The former Department of Justice (DoJ) recognised fine revenue of $590.1 million in 2013–14 from these categories of fines—$632.6 million in 2012–13. While the former Department of Transport, Planning and Local Infrastructure (DTPLI) recognised $18.0 million in public transport fine revenue in 2013–14—$16.8 million in 2012–13.

Conclusion

Debt management practices over unpaid fines at the Department of Justice and Regulation can be improved. This is important as a significant number of fines are written off each year.

Findings

- Fines under warrants written-off by DoJ in 2013–14—predominantly relating to traffic fines—totalled $53.1 million compared with $54.9 million in 2012–13. While DTPLI wrote off $5.1 million of public transport fines in 2013–14—$5.5 million in 2012–13.
- DoJ outsourced various infringement-related activities to third-party service providers, however, it had not sought assurance about the operating effectiveness of internal controls of these providers.
- There is no requirement for third-party service providers to actively manage the collection of outstanding fines.

Recommendations

That the Department of Justice and Regulation:

- obtains assurance over the internal controls at third-party service providers
- routinely reports on, and undertakes an analysis of, the categories and types of fines written off, in order to improve the collection of unpaid fines.

6.1 Introduction

Infringement notices are issued by enforcement agencies—such as Victoria Police—to persons who have committed an offence. They generally require the offender to pay a fine, but may also attract other penalties—such as demerit points in the case of traffic offences. Actions that could incur a fine include speeding, running a red light, jaywalking, incorrect parking or not having a valid ticket for travel on public transport.

There are over 120 agencies that can issue an infringement notice. These agencies include local government entities, universities, hospitals and public transport bodies. Money collected by these entities in relation to infringement notices—with the exception of local government and university entities—is recognised as fine revenue by the State of Victoria.

This Part focuses on infringement notices issued through the former Department of Justice (DoJ) for three categories of offences—predominantly traffic offences—which make up 88 per cent of total fine revenue recognised by the state. These infringement notices are for:

- mobile and fixed traffic camera offences
- tollway offences stemming from journeys on the CityLink or EastLink toll roads
- 'on-the-spot' offences.

In 2013–14, 3.1 million infringement notices—3.5 million in 2012–13—were issued for these types of fines, generating revenue in DoJ’s financial statements of $590.1 million—$632.6 million in 2012–13.

The former Department of Transport, Planning and Local Infrastructure (DTPLI) recognised revenue relating to public transport infringement notices of $18.0 million in 2013–14 compared with $16.8 million in 2012–13.

Infringement notices are only written off once they are deemed uncollectable—a minimum of five years after an enforcement order has been issued or the Magistrates' court has issued a warrant for the Sheriff's office to commence proceedings to collect the outstanding debt.

For the year-ended 30 June 2014, $53.1 million of fines under warrants were written-off by DoJ—$54.9 million in 2012–13. DTPLI wrote off $5.1 million of public transport fines in 2013–14—$5.5 million in 2012–13.

6.2 Conclusion

In 2013–14, $53.1 million of the fines under warrants relating to the categories assessed by this report, were written-off by DoJ compared with $54.9 million in 2012–13.

Debt management practices at the Department of Justice and Regulation (DJR) can be improved, as set out in this report.

6.3 Background

The framework for the issuing, serving and enforcement of infringement notices is governed by the *Infringements Act 2006* (the Act). The Act details how an infringement notice can be issued, enforced and paid in the event of financial difficulties—through a payment plan, community work and/or imprisonment.

Other legislation, such as the *Road Safety Act 1996*, details the offences for which an infringement notice may be issued, and indicates the number of penalty or demerit points to be applied to a particular offence. The dollar value of each penalty point to be levied is set through the *Monetary Act 2004*, and revised annually.

In 2014–15, the legislative framework regarding infringement notices has been amended through the *Fines Reform Act 2014*, which introduces a new model for collecting and enforcing infringement notices. This became effective subsequent to the period covered in this report.

The former Attorney-General, as minister responsible for the Act, publishes an *Annual Report on the Infringements System* each year. The report provides a summary of the number and type of infringement notices issued during the financial year, and the initiatives taken to enforce them.

This Part focuses on fines issued by Victoria Police, through the DoJ, for:

- 'on-the-spot' fines
- mobile and fixed traffic camera offences
- tollway offences.

This Part also comments on public transport infringement notices issued through the former DTPLI.

'On-the-spot' offences

On-the-spot fines are issued by Victoria Police officers at the time an offence occurs. The officer will usually hand the infringement notice to the offender immediately. Some of the common offences that attract on-the-spot infringement notices are:

- speeding
- use of a mobile phone when driving
- driving a non-registered vehicle
- jaywalking
- drunk and disorderly behaviour.

Mobile and fixed traffic camera offences

Traffic camera infringement notices relate to all offences that are captured on mobile and fixed cameras. Common offences include speeding and not stopping at a red light.

Tollway offences

In order to travel on tolled sections of the CityLink and EastLink tollways, a driver must pay a toll. Where payment is not received, and the tollway operators have been unable to recover the toll through invoicing the owner of the vehicle, the details are passed to Victoria Police who issue an infringement notice.

Public transport offences

When an infringement notice is issued for an offence on public transport—such as travelling without a valid ticket—the infringement notice is issued through DTPLI. The offences which can occur on public transport are detailed in the *Transport (Compliance and Miscellaneous) Act 1983*.

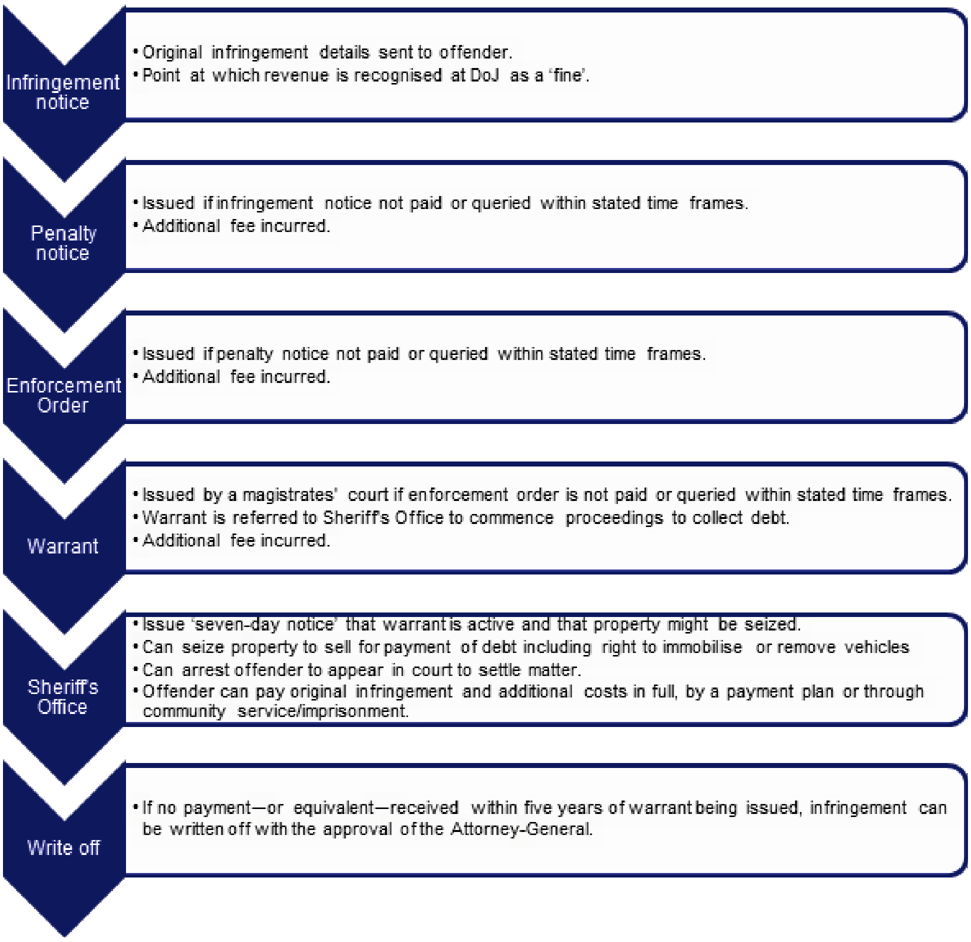
6.4 Structure of the infringement notice systems

Infringement notices

An infringement notice can only be issued following the detection of an offence by an authorised member of an enforcement agency. It is then verified through the agency's quality checks to confirm an offence has occurred, and that it is enforceable. The responsible authority will then issue an infringement notice to the named person. It is expected that the offender will pay the fine associated with the infringement.

Figure 6A details the key stages of an infringement notice. At any stage of this process, the offender could nominate to pay the original infringement fine and any additional costs in full, or through a payment plan, community service or imprisonment.

Figure 6A
Stages of an infringement



Source: Victorian Auditor-General's Office.

Cancellations

Cancellation or withdrawal of an infringement notice may occur for several reasons, the most common being:

- when an infringement notice from a road safety camera is issued to the registered proprietor of the vehicle, and that person then nominates another person as the driver at the time of the offence—this results in a cancellation of the original infringement notice and a new one being issued
- the person receiving an infringement notice writes to the issuing agency to request an internal review of the offence prior to the matter proceeding to Magistrates' court, which may result in a withdrawal of the infringement notice and the issue of an official warning in its place
- the person to whom the infringement notice was issued successfully challenges the infringement at court—this can occur at any point in the process outlined in Figure 6A.

If an infringement notice is challenged at court, the original infringement notice, and any additional fees incurred up to this point are cancelled, and the offence becomes a matter for the court to review. If the challenge is successful, no costs are generally incurred by the offender. If the offence is upheld, a court fine will be issued which may be greater than the penalty imposed by the original infringement notice.

Write-offs

Non-payment of an infringement notice will attract additional fees as noted in Figure 6A. The write-off of an infringement notice—being the original fine plus any additional fees—will only occur after a minimum of five years has passed since an enforcement order was issued or the infringement court has issued a warrant for the Sheriff's office to commence proceedings to collect the outstanding debt for recovery. The five-year period came into force in 2010–11, extending the previous three-year period to recover the fine. Infringement notices can only be written off with the approval of the Attorney-General.

Enforcement orders can expire where an offender is not a Victorian resident as the infringement court does not have the power to enforce the infringement notice, or when the Sheriff’s office is unable to locate the offender.

If the Sheriff’s office is unable to locate the offender within five years the warrant will expire and the outstanding debt may be written off for accounting purposes. However, a new warrant can be issued at any time in relation to the outstanding debt, if the offender is located.

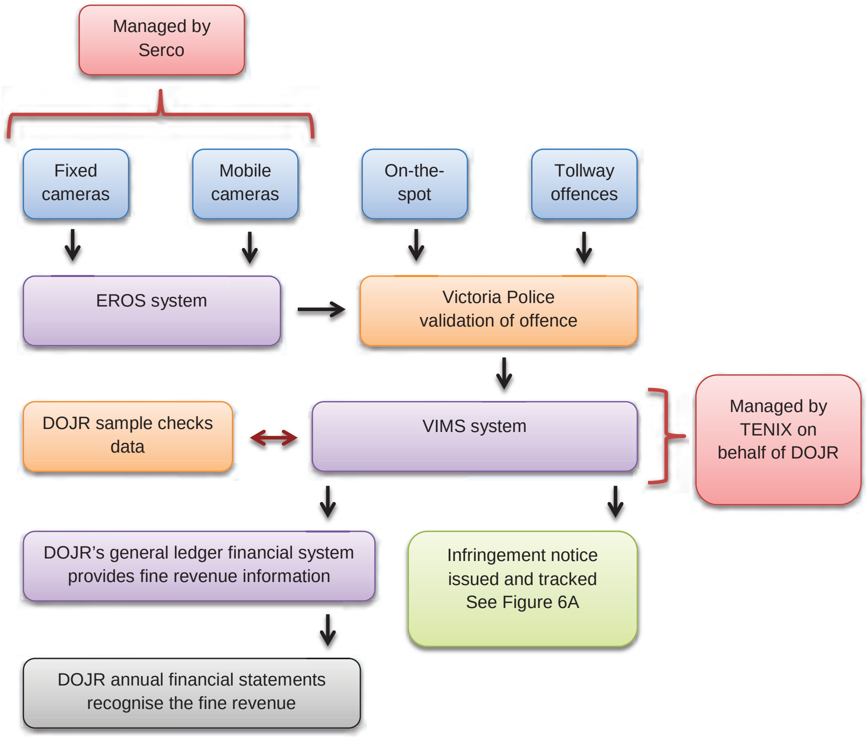
6.5 Internal controls

In 2013–14, DoJ was responsible for the administration and management of infringement notices issued by Victoria Police. As of 1 January 2015, this responsibility has moved to the new DJR.

This responsibility includes storing the details of the offence and person the infringement notice was issued to, conducting internal quality reviews to make sure the infringement notices issued are appropriate, and managing the stages outlined in Figure 6A.

A summary of the key agencies and systems involved in the administration and management of infringement notices is shown in Figure 6B.

Figure 6B
Key agencies and systems in the infringement notice process



Source: Victorian Auditor-General's Office.

Serco Traffic Cameras Pty Ltd

Serco Traffic Cameras Pty Ltd (Serco) is responsible for capturing evidence from both mobile and fixed traffic cameras across Victoria. These responsibilities include:

- managing and maintaining mobile traffic cameras
- operating mobile cameras as per site and time requests from Victoria Police.

Images captured by Serco are passed onto Victoria Police for verification checks to confirm that enforceable offences have been detected. The details of the offences are then provided to Tenix Solutions Pty Ltd (Tenix).

Tenix Solutions Pty Ltd

Tenix is responsible for recording the infringement details within the Victorian Infringement Management System (VIMS), as well as generating and issuing the infringement notices. This includes processing withdrawals, cancellations, and the generation of new infringement notices.

Information regarding an offence, once validated by Victoria Police, is provided to Tenix. DJR perform sample checks to make sure the infringement notice is enforceable.

VIMS interfaces with DJR’s general ledger financial system, and provides the key financial information regarding fines revenue that is recognised in its annual financial statements. This is consolidated into the State of Victoria's annual financial report.

6.5.1 Assurance over outsourced providers

Pursuant to the *Financial Management Act 1994*, an entity is responsible for maintaining an effective internal control environment over its transactions. This responsibility extends to the control environment of external providers who provides services to the entity. Outsourced financial functions, such as VIMS—which provide information for the entity’s annual financial statements—must also be subject to internal and external scrutiny. This helps to assure the entity about the accuracy and completeness of the data it receives.

VIMS is managed and maintained by Tenix on behalf of DJR. DJR needs to be assured that Tenix has designed, implemented and maintained the operating effectiveness of key controls. For the financial year-ended 30 June 2014, DoJ had not sought or received an assurance report from the auditors of Tenix regarding the operating effectiveness of key internal controls.

DJR, as the current responsible department, should seek assurance over the operating effectiveness of internal controls of its third-party service providers through mechanisms such as an auditor's report issued under the Australian Standard on Assurance Engagements ASAE 3402 *Assurance Reports on Controls at a Service Organisation*. This recommendation was raised with the former Secretary of DoJ, and the audit committee, through our management letter.

6.5.2 Oversight of outsourced providers

In 2013–14, DoJ monitored the performance of the outsourced providers Serco and Tenix according to a set of pre-determined key performance indicators (KPI's) and service standards as specified under their respective contracts. The KPI's are set up to assist in the accurate and timely issuing of an enforceable infringement notice. Subject to performance, the operators may be entitled to a financial bonus or abatement.

Some of the KPI's included in the contracts are:

- delivery of compliant camera hours—Serco
- time taken for the transfer of images to Victoria Police—Serco
- data accuracy—Serco
- issuing of infringement notices in a timely manner—Tenix
- warrant management—Tenix
- call centre performance—Tenix.

DoJ’s oversight of its providers includes sample checking of data input into VIMS, review of evidence supporting an infringement notice, and quality control checks of discussions between the outsourced providers and the person who has received an infringement notice.

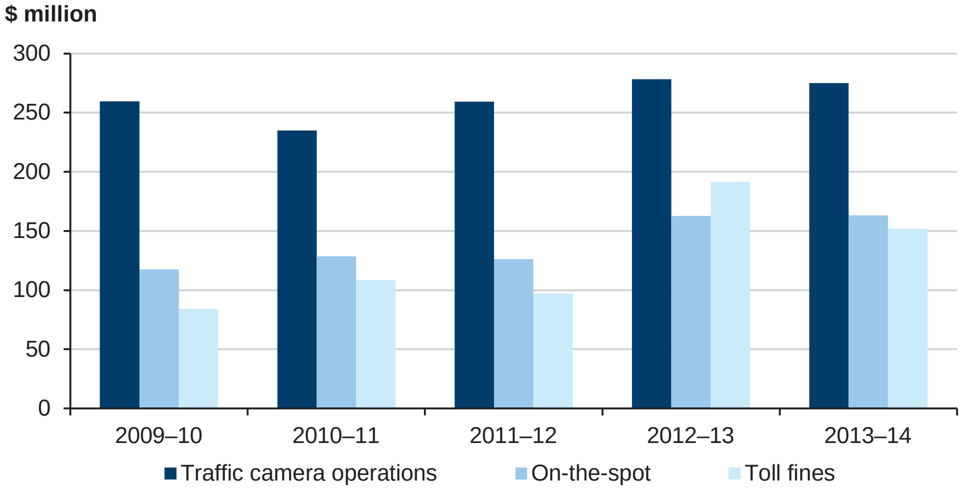
There are no requirements for Tenix, or Serco, to actively manage the collection of outstanding infringement notices.

6.6 Analysis of infringement notices

In 2013–14, 3.1 million infringement notices were issued for ‘on-the-spot’ fines, traffic camera and tollway offences—compared with 3.5 million in 2012–13—generating net revenue of $590.1 million in DoJ’s financial statements—$632.6 million in 2012–13. During the same period, DTPLI recognised fine revenue of $18.0 million—$16.8 million in 2012–13.

Figure 6C details the value of infringement notices issued for each of the DoJ categories over the five-year period 2009–10 to 2013–14.

Figure 6C
Net revenue generated from infringement notices, 2009–10 to 2013–14



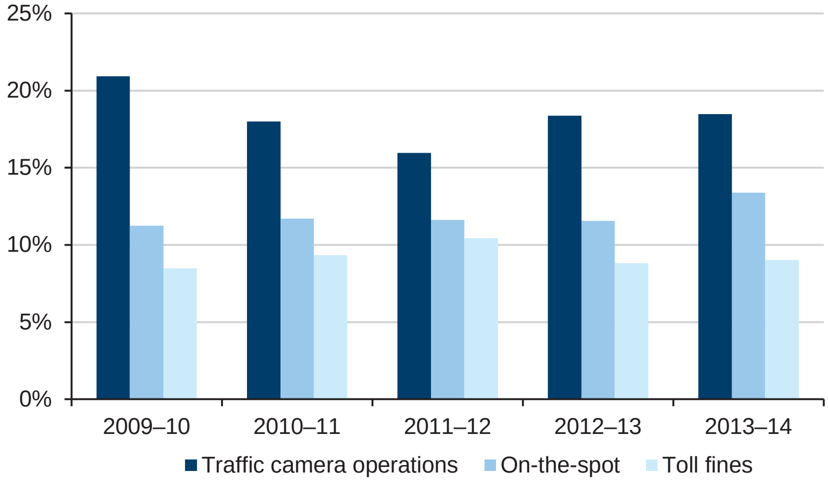
Source: Victorian Auditor-General’s Office.

Cancellations

With respect to ‘on-the-spot’ fines, traffic camera and tollway offences, infringement notices worth $102.6 million were cancelled or withdrawn in 2013–14—$102.5 million in 2012–13.

Figure 6D shows the percentage of infringement notices for each of the DoJ categories that have been cancelled from 2009–10 to 2013–14.

Figure 6D
Percentage of cancelled infringement notices per category
2009–10 to 2013–14



Source: Victorian Auditor-General's Office.

In 2013–14, 18.5 per cent of infringement notices relating to traffic camera offences were cancelled compared with 18.4 per cent in 2012–13. This equates to $62.3 million compared with $62.7 million in 2012–13. This is significantly higher than the other categories of offences.

A key reason for cancellation of a traffic camera infringement notice is that the person receiving the notice nominated another person as the driver. At this point, the infringement notice is cancelled and a new notice issued.

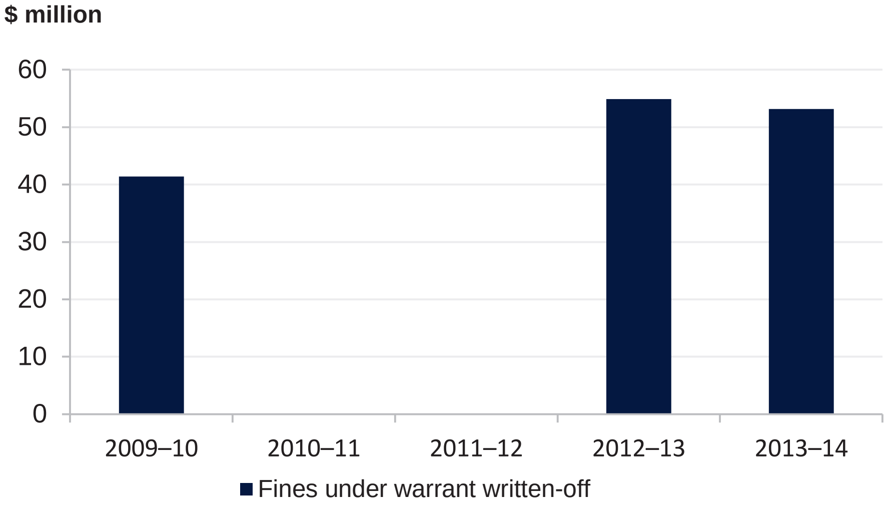
Additional cancellations of infringement notices arise from requests by the offender to challenge the infringement in court, or to be issued with an 'official warning' instead of paying the notice. It should be noted that applications for official warnings are reviewed by Victoria Police on a case-by-case basis with the nature of the offence and the person's past driving history considered.

Write-offs

As at 30 June 2014, DoJ reported $1.62 billion—$1.46 billion at 30 June 2013—of outstanding debt relating to all infringement notices.

For the year-ended 30 June 2014, $53.1 million of fines under warrants, for the categories of offences reviewed in the Part, were written-off by DoJ—$54.9 million in 2012–13. Figure 6E highlights the level of fines under warrants written-off for each of the five years since 2009–10.

Figure 6E
Value of infringement fines under warrant written-off, 2009–10 to 2013–14



Source: Victorian Auditor-General's Office.

The level of write-off has remained relatively stable in recent years. Due to a change in policy during 2010–11, which extended the period before an infringement notice can be written-off from three to five years, no fines and fees relating to warrants were written off during 2010–11 and 2011–12.

Our audit indicates that DoJ does not analyse the write-off of fines by category, or type, to assist in improving the collection and enforcement of unpaid fines. Reports containing fines written-off by category, and type, are not generated.

We did, however, identify that DoJ prepared, and analysed, reports on the rate of collection of outstanding infringements, by category. This analysis focuses on the percentage of infringements collected but does not delve into detail about the level of, or reasons for, fines that are written off. A greater analysis of information relating to write-offs could improve the collection of unpaid fines.

6.7 Changes to the infringements framework

There were a number of reforms to the infringement framework during 2014, which have been designed to improve the framework, and are summarised below:

The Sentencing Advisory Council Report

The Sentencing Advisory Council (the Council) released a report in May 2014 on the imposition and enforcement of court fines and infringement notices in Victoria. The report was the Council's response to a government request for advice on these areas. The Council found that the current system of fines was fragmented, creating avoidable obstacles to both payment and enforcement.

In total 49 recommendations were proposed to reform the system, across the following themes:

- harmonising payment and management of court fines and infringement penalties
- enforcement by the administrative body
- enforcement by the court
- conversion of court fines and infringement penalties into imprisonment
- infringement penalties heard in open court and internal review
- tolling infringement offences
- imposition and enforcement of court fines and infringement penalties against children.

Fines Reform Act 2014

The *Fines Reform Act 2014* introduces a new model for collecting and enforcing debts—including infringement notices—through the creation of a new body called Fines Victoria.

Key features of the *Fines Reform Act 2014* include:

- a Director of Fines Victoria (the Director) is to be appointed by the Secretary of DJR to manage the recovery of legal debt
- more options will be introduced for vulnerable people with infringement fines who have incapacities and hardships to ensure that fair consideration of their circumstances are applied
- stronger and more automated enforcement sanctions will be applied by the Director to recover fines
- existing sanctions such as driver licence and vehicle registration suspension will be rolled out more widely
- availability of a single account for tracking and paying infringement and court fines
- oversight powers of the Director with regards to recommendations and reporting to the Attorney-General.

The *Fines Reform Act 2014* received royal assent on 1 July 2014, and commences operation on 1 July 2016.

Road Safety Amendment (Operator Onus) Act 2012

The *Road Safety Amendment (Operator Onus) Act 2012* amended the *Road Safety Act 1986* resulting in changes with respect to infringement notices for traffic offences, amendments included within this came into operation on 1 July 2014.

The amendments were implemented to discourage businesses paying an infringement notice when an employee has broken the road rules while driving a corporate vehicle and to ensure demerit points are applied to individual drivers.

In the past, if a vehicle registered under a business name was involved in a traffic offence, the infringement notice was issued to the business. The business owners could choose to:

- pay the initial fine and a fine for 'failing to nominate a driver', which was $867 in 2013–14, or
- nominate an individual as the driver.

Where an individual was nominated the original infringement notice was cancelled and a new one issued to the individual, who also accrued demerit points. Where a business elected to pay the fines, no demerit points were accumulated.

Effective from 1 July 2014, a business is issued with an infringement notice of $2 952 per offence and there is no longer a fine for 'failing to nominate a driver'. Accordingly, a business can either:

- pay the $2 952 up to a maximum of three offences during a 12-month period before the matter is passed to the courts who may levy an additional fee of $17 713 per offence, or
- nominate an individual as the driver, which results in the original infringement notice being cancelled and a new one issued to the individual.

On-the-spot fines for public transport

Effective from 1 August 2014, on-the-spot public transport fines can now be issued by authorised public transport agency officers under changes to the *Transport (Compliance and Miscellaneous) Act 1983*. Similar to on-the-spot fines issued by Victoria Police, the offender can be issued with an infringement notice at the time the offence is recorded.

Public transport offenders will now be given an option of paying the infringement notice immediately, with a reduced penalty being imposed—$74 at 1 December 2014. If this option is not selected, the details of the offence are passed to the Department of Economic Development, Jobs, Transport and Resources—who took over responsibility for public transport offences on 1 January 2015—for a full-penalty infringement notice to be issued.

Recommendations

That the Department of Justice and Regulation:

14. obtains assurance over the operating effectiveness of internal controls at third-party service providers
15. routinely reports on, and undertakes an analysis of, the categories and types of fines written off in order to improve the collection of unpaid fines.

7 Alpine resorts

At a glance

Background

This Part analyses the financial results and financial sustainability risk of the five Victorian alpine resorts for the five years ended 31 October 2013.

The financial statements of the majority of alpine resorts for the year-ended 31 October 2014 were not complete at the time of preparing this report.

Conclusion

There has been little change in the financial results and sustainability risks of the resorts over the five years to 31 October 2013. The resorts face long-term financial challenges to remain financially viable and maintain their assets.

Findings

- Over the five years to 31 October 2013, the alpine resorts at Mount Baw Baw and Lake Mountain have regularly been assessed as having high financial sustainability risks.
- Over the five years to 31 October 2013, Mount Baw Baw has spent less on asset maintenance and renewal than the cost of using its assets—as measured by depreciation—suggesting the condition of its assets are deteriorating.

Recommendations

That the alpine resorts develop strategies to improve their long-term financial sustainability.

7.1 Introduction

Victoria's alpine resorts are located at Mt Buller, Mt Stirling, Falls Creek, Mt Hotham, Mt Baw Baw and Lake Mountain. These alpine resorts are visited by over 1.2 million people annually. Victoria has five alpine resort management boards (the resorts) that oversee operations at each of these geographical locations.

The ability of the resorts to generate surpluses and be financially sustainable is subject to the fluctuations in annual snowfall. This presents a challenge to manage a business that is heavily dependent on the length of the winter season, snowfall levels and visitor numbers.

The objective of the resorts should be to maintain the condition of the public infrastructure assets that they manage, while servicing their debt levels and maintaining their operating activities within a financially sustainable framework.

This Part comments on the resorts' financial results and sustainability for the five years to 31 October 2013. The results of the alpine resorts had previously been reported within our Tertiary Education and Other Entities: Results of Audits parliamentary reports. In 2013–14 the format of the Tertiary sector report was altered with the results of universities and technical and further education (TAFE) institutes reported in two separate reports. As part of this alteration, the alpine resorts were removed from the Tertiary sector report and are now reported within this report.

The financial statements of the majority of the alpine resorts for the year-ended 31 October 2014 had not been finalised at the time of publication. Accordingly, this Part only considers the collective financial results for all the resorts to 31 October 2013. The results for the resorts to 31 October 2014 will be commented on as part of the *Portfolio Departments and Associated Entities: Results of the 2014–15 Audits* report.

7.2 Financial result

The Victorian alpine resorts reported a combined surplus of $0.6 million for 2012–13, compared with a $1.7 million deficit in 2011–12. This result is largely due to government support.

Figure 7A shows the total underlying operating results of the resorts for the years from 2008–09 to 2012–13, and the level of government support.

Figure 7A
Alpine resort's underlying operating results 2008–09 to 2012–13

	2008–09 $ mil	2009–10 $ mil	2010–11 $ mil	2011–12 $ mil	2012–13 $ mil
Operating result	2.8	6.3	5.2	(1.7)	0.6
Less government support	3.2	2.7	8.2	5.2	9.3
Less insurance and bushfire recoveries	2.6	5.5	1.9	–	–
Underlying surplus/(deficit)	**(3.0)**	**(1.9)**	**(4.9)**	**(6.9)**	**(8.7)**

Source: Victorian Auditor-General's Office.

We have been advised that the alpine resorts have put measures in place to improve their financial operations.

Total revenue generated by the alpine resorts in 2012–13 was $45.3 million. This was an increase of 3 per cent from the $43.8 million generated in 2011–12 and was largely due to increased government funding. While revenue from government funding has historically been approximately 10 per cent of total revenue for the resorts, there was an increase during 2012–13.

In line with expectations, total operating expenditure decreased in 2012–13 by 1 per cent to $44.7 million—predominantly due to a reduction in seasonal staff required to operate the resorts.

At 31 October 2013, the alpine resorts controlled $390 million of assets—$389 million in 2011–12. Asset balances have remained consistent over the past five years and are made up almost entirely of property, plant and equipment. Asset values are mainly affected by changes in underlying land values.

At 31 October 2013, the alpine resorts held combined liabilities of $13 million—$12 million at 31 October 2013—these mainly consist of trade payables, employee provisions and interest bearing loans. Liability balances have remained consistent over the past five years.

7.3 Financial sustainability risks

To remain financially sustainable, alpine resorts should be agile in regards to their expenditure and have contingency plans in place to respond appropriately to the unpredictability and variability in snow seasons. Our financial sustainability analysis shows there are inconsistencies in how well this is being achieved.

Figure 7B provides a financial sustainability risk assessment for each of the resorts for the five financial years to 31 October 2013.

Figure 7B
Financial sustainability assessments, 2008–09 to 2012–13

	2008–09	2009–10	2010–11	2011–12	2012–13
Mount Baw Baw	High	High	Medium	High	Medium
Lake Mountain	High	High	High	Medium	Medium
Falls Creek	Low	Low	Low	Low	Low
Mount Hotham	Low	Low	Low	Medium	Medium
Mount Buller and Mount Stirling	Medium	Medium	Low	Low	Medium

Source: Victorian Auditor-General's Office.

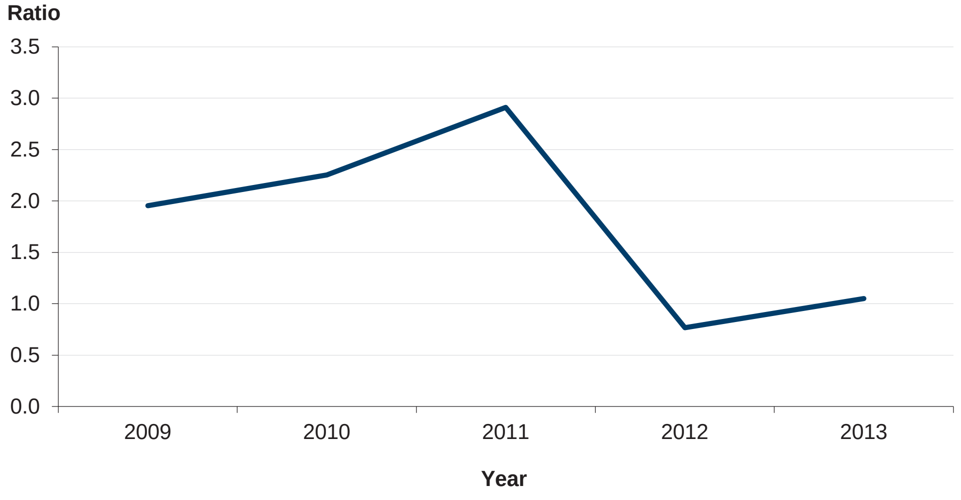
The resorts at Mt Baw Baw and Lake Mountain have been regularly assessed as high risk over the five years to 31 October 2013. This indicates there may be ongoing financial sustainability risks at these alpine resorts that are not being appropriately addressed. The results of the individual alpine resorts are included in Appendix B.

7.3.2 Capital replacement

Alpine resort activities and services are capital intensive and heavily reliant on infrastructure to generate revenue. The capital replacement indicator is a long-term measure of each resort's ability to maintain and replace these assets.

Our analysis of the trends in the capital replacement indicator over the past five years shows a decline in the spending on asset maintenance and renewal. Figure 7C shows the average capital replacement ratio for all five resorts over the five years from 2008–09 to 2012–13.

Figure 7C
Capital replacement ratio 2008–09 to 2012–13



Source: Victorian Auditor-General's Office

Over the five years to 31 October 2013, Mt Baw Baw has maintained a capital replacement indicator of less than one. This shows that the level of spending on asset maintenance and renewal has been less than the amount of assets consumed annually, as measured by depreciation.

While the capital replacement indicator for Mt Hotham and Mt Buller are greater than one, they are only marginally so. Consequently, these alpine resorts should also be closely monitoring the condition of their assets.

Recommendation

16. That the alpine resorts develop strategies to improve their long-term financial sustainability.

8 Significant projects

At a glance

Background

This Part details the progress of significant projects underway at 30 June 2014.

Conclusion

With the exception of Western Highway upgrades, the significant projects reviewed are progressing on time and within budget as at 30 June 2014.

Findings

- The port capacity project remains on schedule to be completed within approved milestones and budget. The base infrastructure being delivered by the Port of Melbourne Corporation is scheduled to be completed by early 2017 at a cost of $921 million.
- The budget for RRL decreased by $705 million—14.7 per cent—in 2013–14 based on the current project delivery progress, and after the inclusion of an additional $202 million of level crossing works at Main Road St Albans within the project. This follows several significant changes in its budget and timetable over four years.
- Additional funding of $157.3 million was approved in September 2014 for the Western Highway upgrades, and to complete the duplication between Buangor and Ararat, which is still some 30 kilometres short of Stawell. Completion of the upgrades is dependent on further funding negotiations with the Commonwealth Government.

8.1 Introduction

This Part details the progress of significant projects underway in Victoria at 30 June 2014. The projects we comment on are those where Parliament or the public would have a reasonable expectation of independent disclosure of the related financial implications.

8.2 Port capacity project

The $1.6 billion port capacity project, announced in April 2012, aims to expand the Port of Melbourne's container and automotive terminal capacity. Its centrepiece is the redevelopment of Webb Dock and the construction of a new international container terminal capable of handling at least one million standard containers per year. The first international container is planned to cross the terminal's dock in December 2016.

The project also includes the consolidation of Victoria's car and automotive trade at a new facility to be built at Webb Dock West opposite the new container terminal, and alongside a new on-port automotive pre-delivery inspection facility. The automotive terminal will be designed to handle one million cars a year. The new facilities are expected to become progressively operational from late 2015, starting with the pre-delivery inspection facilities.

The Port of Melbourne Corporation (PoMC) is responsible for funding and delivering the base infrastructure for the project. Works are being completed in:

- **site preparation and other early works**—including base earthworks and establishing site levels for the new facilities
- **roads and services works**—including constructing new roads to connect the terminal and Melbourne's freeway network
- **maritime works**—the largest component of the project, includes the delivery of a new 920 metre wharf, dredging and the associated re-engineering of the existing Webb Dock East wharves
- **Swanson Dock works**—facilitating the relocation of services at Swanson Dock dependent on the incumbent stevedores' commitment for further investment and expansion.

Once the base infrastructure is complete, private sector participants will be selected by PoMC to deliver, finance and operate the superstructure, including the:

- international container terminal—Webb Dock East—comprising around 30 hectares of waterfront terminal, a utility ‘off-dock’ area and an adjoining empty container facility
- automotive terminal—including laying of pavement for vehicle storage
- pre-delivery inspection hub.

Also included in the project scope for the superstructure, is the facilitation of additional container capacity at the two existing container terminals at Swanson Dock.

8.2.1 Progress as at 30 June 2014

From October 2012, expressions of interest were sought in connection with the three base infrastructure works packages being funded by PoMC. Expressions of interest closed in December 2012.

The successful bidder for initial site preparation works commenced in March 2013 and those works were completed in November 2013.

A shortlist of bidders for the roads and services, and maritime works packages was identified in May 2013 to proceed to a 'request for proposal' phase. The announcement of the successful bidder was made in November 2013 for the roads and services works, and in January 2014 for the maritime works.

Construction associated with the roads and services works package is scheduled to be completed by mid-2015 and operational in early 2016. Construction associated with the maritime works package is scheduled to be completed by late 2016 or early 2017.

Bids for the privately-financed superstructure components of the project were sought by PoMC during 2013. The successful operators for the new automotive pre-delivery inspection hub and automotive terminal were announced in December 2013 and these facilities are expected to be operational by 2016. The successful proposal for the new international container terminal was announced in May 2014 and the facility is expected to be operational by late 2016 or early 2017.

The successful proponents for the superstructure components of the project will be awarded leases to operate the facilities until 2040, after which time the facilities, excluding equipment, will revert to PoMC. The project remains on schedule to be completed within approved milestones and budget.

8.2.2 Project expenditure

A breakdown of the budget, actual and committed expenditure—and expected completion dates for each component of the base infrastructure works as at 30 June 2014 is provided in Figure 8A.

Figure 8A
Port capacity project: base infrastructure: budget, actual and committed expenditure, and expected completion dates as at 30 June 2014

Project component	Original budget ($mil)	Expenditure to date ($mil)	Committed expenditure ($mil)	Expected completion
Site preparation and other early works	6	5	5	Completed
Roads and services works	98	23	89	2015
Maritime works	584	33	375	2017
Swanson Dock works	20	1	1	2017
Other—project overheads, risk event allowance and land works[(a)]	213	67	92	2017
Total	**921**	**129**	**562**	

(a) Other expenditure supports the delivery of the base infrastructure works packages. It includes a risk event allowance to be utilised if identified project risks eventuate at any stage during the project's duration.

Source: Victorian Auditor-General's Office.

Total expenditure of $128.9 million had been incurred to 30 June 2014. This includes $113.0 million of capital expenditure and $15.9 million of other operating expenditure.

The base infrastructure works will be funded by PoMC at an estimated cost of $921 million. PoMC will borrow to finance these works and recover those costs through port charges.

The successful proponents for the superstructure components of the project—with an estimated construction cost of approximately $680 million—will privately finance those works. PoMC will not contribute to the construction costs or the operating costs during the lease term.

8.3 Regional Rail Link

The Regional Rail Link (RRL) will provide approximately 90 kilometres of new track to separate regional and metro trains between Southern Cross Station and West Werribee, via Sunshine. The project is being delivered in a number of works packages, and also includes extensive station works, and 15 new road and rail separations.

The Regional Rail Link Authority (RRLA) was established as an administrative office of the former Department of Transport, Planning and Local Infrastructure to manage delivery of RRL.

8.3.1 Progress as at 30 June 2014

RRL was originally expected to be completed by December 2014. Following a 2011 government review, the project completion time frame was changed to 2016. While the 2014–15 State Budget announced a revised earlier completion date of 2015, the Main Road St Albans level crossing works now included within the project are not expected to be completed until 2017.

Preparatory works and Southern Cross works have been completed, and the remaining works packages were underway at 30 June 2014.

8.3.2 Project expenditure

A breakdown of budget, actual and committed expenditure—and expected completion dates for each component of RRL, as at 30 June 2014 is provided in Figure 8B.

Figure 8B
Regional Rail Link: budget, actual and committed expenditure, and expected completion dates as at 30 June 2014

Works package	Original budget ($mil)	Revised budget 2011 ($mil)	Revised budget 2013 ($mil)	Revised budget 2014 ($mil)	Expenditure to date ($mil)	Committed expenditure ($mil)	Expected completion
Preparatory works and project management	369	608	695	557	415	19	2015
Southern Cross works	244	315	342	228	225	1	Completed
City to Maribyrnong works	632	929	952	729	588	96	2014
Footscray to Deer Park works	955	1 437	1 281	1 157	1 013	15	2014
Sunshine to Deer Park West works	393	48	n/a	n/a	n/a	n/a	n/a
Deer Park to West Werribee Junction works	1 343	1 295	963	863	754	11	2014
West Werribee Junction works	136	149	146	55	52	–	2014
Anderson Road level crossing works	n/a	180	n/a	n/a	n/a	n/a	n/a
Rail systems works	245	230	428	311	202	87	2014
St Albans level crossing works	–	–	–	202	–	–	2017
Central contingency	–	377	–	–	–	–	n/a
Total	**4 317**	**5 568**	**4 807**	**4 102**	**3 249**	**229**	

Source: Victorian Auditor-General's Office.

The original project budget of $4 317 million was revised in March 2011 to $5 568 million to include additional contingency provisions, signalling equipment, land acquisition, and the removal of the level crossings at Anderson Road, Sunshine.

A further amendment reducing the project budget to $4 807 million was approved in January 2013. The decrease was attributed to improved scope certainty, construction efficiencies and innovation, and removal of the contingency provisions.

The 2014–15 State Budget announced another amendment to the project budget, further reducing it to $4 102 million based on the current project delivery progress, while also including $202 million of level crossing works at Main Road St Albans within the project.

8.3.3 Project funding

The Commonwealth Government originally proposed funding of $3 225 million for the project over seven years from 2008–09, with the state to provide the remainder. However, the Commonwealth Government reduced its funding to $3 057 million in light of the 2014 budget revision. The state's contribution is therefore now budgeted to be $1 045 million.

8.4 Western Highway upgrades

The Western Highway upgrades comprise the following components:

- realignment of Anthony’s Cutting near Bacchus Marsh
- construction of overtaking lanes and rest areas, and bridge strengthening works between Stawell and the South Australian border
- duplication of the Western Highway between Ballarat and Stawell.

8.4.1 Progress as at 30 June 2014

Anthony's Cutting realignment

The Anthony’s Cutting realignment consists of two parts—a five kilometre highway connection and a new highway interchange. The highway connection was completed in June 2011.

In January 2012 the former Minister for Planning rejected a permit to remove five trees on Bacchus Marsh Road that form part of an Avenue of Honour. This meant the original scope for the highway interchange could not proceed.

Further planning activities—including community and stakeholder consultation—resulted in the development of a revised package of works known as the Bacchus Marsh Traffic Improvements Package. This package was announced by the then Victorian Government in March 2014. Planning and pre-construction activities have commenced. Ongoing discussions are occurring with the state, commonwealth and local governments to agree on scope and funding arrangements.

Stawell to South Australian border

Construction of overtaking lanes and bridge strengthening works between Stawell and the South Australian border were completed during 2013–14. In February 2014, the Commonwealth Government approved an additional road safety intersection and bridge works within the original $50 million budget. These works are expected to be completed in 2015.

Western Highway duplication

The duplication of the Western Highway, between Ballarat and Stawell, is being completed in stages.

Duplication between Ballarat and Burrumbeet was completed in January 2013. Duplication between Burrumbeet and Beaufort commenced in June 2012 and is expected to be completed in 2015—completion of this section has been delayed due to adverse weather.

In April 2014 a contract was awarded for the 15 kilometre duplication between Beaufort and Buangor. Construction commenced in late 2014 and is expected to be completed in 2016.

Expressions of interest have been called for construction of the Buangor Bypass. The bypass will add an additional six kilometres of duplicated road.

8.4.2 Project expenditure

A breakdown of budget, actual and committed expenditure—and expected completion dates for each project component as at 30 June 2014 is provided in Figure 8C.

Figure 8C
Western Highway upgrades: budget, actual and committed expenditure, and expected completion dates as at 30 June 2014

Project component	Original budget ($mil)	Revised budget 2011 ($mil)	Expenditure to date ($mil)	Committed expenditure ($mil)	Expected completion
Anthony's Cutting realignment	200	200	169	2	TBA[(a)]
Stawell to South Australian border	50	50	44	2	2015
Western Highway duplication between Ballarat and Stawell:					
• Corridor project management planning	12	11	11	–	Completed
• Stage 1A Ballarat to Burrumbeet	32	49	38	2	Completed
• Stage 1B Burrumbeet to Beaufort	248	239	158	42	2015
• Stage 2A Beaufort to Buangor	206	206	23	93	2016
• Future stages	7	–	–	–	TBA[(b)]
Western Highway duplication subtotal	**505**	**505**	**230**	**137**	
Total	**755**	**755**	**443**	**141**	

(a) Dependent on agreement between the state, Commonwealth and local governments to the scope and funding of associated works.
(b) Dependent on planning and funding negotiations with the Commonwealth Government.
Source: Victorian Auditor-General's Office.

The $505 million budget for the Western Highway duplication between Ballarat and Stawell is supported by a funding agreement with the Commonwealth's contribution capped at $404 million. The remainder is to be funded by the state.

The original funding allocation was sufficient to complete the duplication to Buangor, which is 50 kilometres short of Stawell. Additional funding of $157.3 million was approved in September 2014 to complete the duplication between Buangor and Ararat, which is still some 30 kilometres short of Stawell.

9 Public private partnerships

At a glance

Background

This Part reviews the delivery of, and accounting for, public private partnerships (PPPs). It also analyses and comments on the total cost of PPPs to the state, and provides additional comment on three PPPs.

Conclusion

At 30 June 2014, 21 facilities in Victoria were operating or being built under a PPP arrangement. The total nominal cost of these PPPs over the remaining life of the contracts was $36.6 billion, payable over the period to 2041–42.

The provisions of the *Audit Act 1994* have failed to keep pace with the expansion of PPPs—consequently, the Auditor-General's mandate to review expenditure on large projects has been eroded.

Findings

- There is currently no Australian accounting standard, or other whole-of-Victorian-Government guidance prescribing the accounting treatment for PPP transactions. In 2010 the Department of Treasury and Finance prepared draft accounting and reporting guidance for PPP projects, aimed at ensuring consistency and best practice. It is disappointing that this guidance has still not been finalised and made available to portfolio agencies.
- The state entered into a PPP in September 2014 for the construction of stage 1 of the East West Link. At the time of preparing this report the new state government had suspended works on this project. Future reports to Parliament may include further comment on this project.

Recommendation

The Department of Treasury and Finance should finalise accounting and financial reporting guidance for PPP projects to assist Victorian public sector agencies.

9.1 Introduction

Public private partnerships (PPPs) are increasingly being used by governments across Australia—alongside traditional procurement methods—to deliver social and economic infrastructure to the community.

At 30 June 2014, 19 facilities operated in Victoria under a PPP arrangement, and a further two were being built. The 21 PPPs are listed and described in Appendix E.

Infrastructure Australia—a Commonwealth entity—defines a PPP project as a project where:

- the private sector provides public infrastructure and any related services and
- there is private investment or financing.

Generally under a PPP, the private sector will design, build, finance, maintain and operate the public infrastructure for a period of time before transferring ownership of the asset to the state.

Although PPPs are an alternate financing vehicle to traditional government procurement methods, value for money should be a key consideration in determining between the public and private provision of infrastructure. Infrastructure Australia recognises that the aim of a PPP is to deliver improved services and better value for money primarily through appropriate risk transfer, encouraging innovation, greater asset utilisation and an integrated whole-of-life management, underpinned by private financing. PPPs can potentially deliver significant benefits in design, the quality of services and the cost of infrastructure by drawing upon the best available skills, knowledge and resources in the public or private sectors.

9.2 Delivery of, and accounting for, PPPs

Each PPP arrangement has its own unique characteristics and no two are the same. To promote better-practice and a consistent approach to their delivery, Partnerships Victoria—a division of the Department of Treasury and Finance (DTF)—released a framework which all Victorian public sector agencies entering into PPPs should comply with. The framework is underpinned by a national PPP policy and guidelines released by Infrastructure Australia, and is supported by other investment and asset management policies and guidelines released by DTF. Figure 9A details the Partnerships Victoria PPP framework and other relevant policies and guidelines.

Figure 9A
Relevant guidance for Victorian PPP infrastructure projects

Source: Victorian Auditor-General's Office from *Partnerships Victoria Requirements, May 2013.*

Accounting for PPPs is complex as both the public and private sectors have an interest in the underlying infrastructure. There is currently no Australian accounting standard which explicitly prescribes the accounting treatment for PPP transactions. The Partnerships Victoria framework provides guidance on the delivery of PPP projects, but not how to account for them.

AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* requires that transactions and other events are accounted for in accordance with their substance and economic reality, with reference to the requirements in other Australian accounting standards dealing with similar transactions. The application of AASB 108 requires management judgement, and it is common practice for agencies entering into a PPP to engage specialists to provide independent accounting advice. Not only is this at a cost to the state, it also increases the risk that agencies inconsistently apply Australian accounting standards when preparing financial statements.

In 2010 DTF prepared draft accounting and reporting guidance for PPP projects, aimed at ensuring consistency and best practice. The Victorian Auditor-General's Office was consulted, and provided input and feedback in 2011 and again in 2012 regarding the content of this material. It is therefore disappointing that—some four years on, and with an additional six PPPs being entered into over that period—this guidance has not been finalised and made available to portfolio agencies.

9.3 Disclosing the total cost of PPP projects

The total cost of PPP projects to the state is generally more than the PPP contract cost disclosed by the portfolio agencies in their annual financial reports and in the Annual Financial Report of the State of Victoria (AFR). This is because the state can incur additional direct costs relating to these projects, such as land acquisition, environmental works, and planning and preparation works, and these costs can be significant.

While these related PPP costs or commitments are included in the AFR, they may not be easily identified as associated with the PPP. This is because Australian accounting standards do not require all costs associated with a project or its development to be drawn together, and portfolio agencies do not elect to disclose the information collectively. Consequently, a reader of the financial statements may have difficulty in identifying and isolating the total costs associated with individual capital projects, be they part of a PPP or not.

Australian Accounting Standards set the minimum requirements for accounting and disclosures, however, for the public sector a higher level of disclosure around PPP projects would increase transparency for the public and minimise the opportunity for ambiguity and misunderstanding.

In light of these shortcomings, in this Part we analyse and comment on the total cost to the state of the 21 PPPs operating or being built in Victoria, over the remaining life of the contracts. We also comment on one significant PPP under procurement and two under construction.

9.4 Cost of PPP projects to the state

The private sector consortium responsible for delivering a PPP generally recoups costs associated with it through periodic service payments from the state, third-party user fees, or a combination of both. Each payment profile impacts the costs incurred by the state, and ultimately the financial performance and position of the state, differently.

The total nominal cost to the state of the 21 PPPs operating or being built in Victoria, over the remaining life of the contracts, is $36.6 billion—excluding GST. This includes $24.5 billion of capital and financing costs and over $12 billion of contracted operating and maintenance costs.

PPP arrangements generally meet the definition of a finance lease under Australian accounting standards. The present value of all finance leases—including some PPP's—are recognised in the balance sheet as a liability and are disclosed in the notes to of the AFR. However, amounts associated with PPPs cannot be distinguished from other finance leases, because:

- Interest charged on finance lease liabilities is expensed in the comprehensive operating statement as it is incurred, and is not recognised as a liability in the balance sheet.
- Future interest charges are disclosed in the notes to the AFR.
- Contracted operating and maintenance costs are accounted for as commitments which are also expensed in the comprehensive operating statement as they are incurred. They are not recognised as liabilities in the balance sheet, but are disclosed by way of note.
- The nominal and present values of operating and maintenance commitments associated with PPPs are disclosed in the notes to the AFR.

In addition to the 21 PPPs operating or being built in Victoria, there were four infrastructure projects at 30 June 2014 which were approved by the former government to be delivered by PPP—including stage 1 of East West Link, the CityLink Tulla widening project and the construction of Ravenhall prison. Stage 1 of East West Link is commented on below.

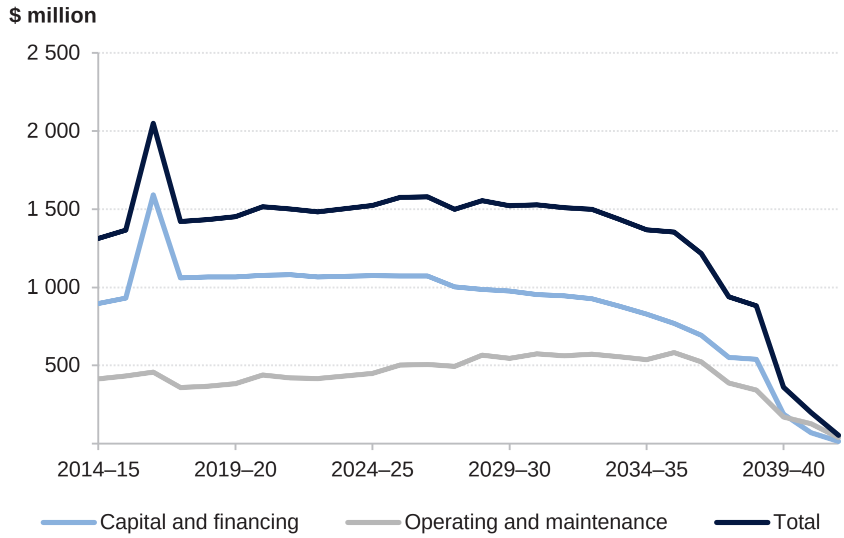
A further three projects were earmarked to be delivered in future years by PPP in the 2014–15 State Budget.

9.4.1 Service payment PPP

A service payment PPP is one where the government pays a private sector consortium a periodic service fee for the availability of a facility. Service fees over the life of the contract cover the cost of constructing, financing, maintaining and operating the facility. If the asset is not available for use, performance standards not met, or contracted services not provided, payments to the private sector consortium are reduced.

Nineteen PPP projects currently operating or being built in Victoria are being funded by periodic service payments from the government. The total annual nominal cost of these PPPs—excluding GST—over the remaining life of the contracts is provided in Figure 9B.

Figure 9B
Total annual nominal cost of service payment PPPs



Source: Victorian Auditor-General's Office

Figure 9B only includes PPPs that were operating or being built in Victoria at 30 June 2014. As new PPPs are entered into annual costs will increase, and contractual obligations of the state are likely to extend past 2041–42.

The increase in costs in 2016–17 is a result of the expected commissioning of the Victoria Comprehensive Cancer Centre in June 2016 and stage 1 of the Bendigo Hospital development in December 2016. Amounts payable to the consortium for the Bendigo Hospital development include construction costs funded by a one off $566 million contribution by the state, payable to the consortium upon commissioning of stage 1 work.

Service payment PPPs result in greater budget certainty compared to a traditional procurement approach, due to whole-of-project and whole-of-life costs being incorporated into contracts. As indicated in Figure 9B, the payment profile is relatively even, with the exception of 2016–17, reflecting the level of service provision over the contract period.

However, the requirement to pay periodic service payments reduces the quantum of discretionary funds available in the future for other public services and infrastructure. This form of PPP creates long-term contractual obligations, generally over 20 to 30 years, where there is limited or no flexibility in the timing or value of payments. These PPPs require effective governance and contract management to ensure value for money is achieved. As projects move into their operating phase, it is important that government measures whether expected benefits of the PPP arrangement have been realised to inform future procurement decisions.

9.4.2 User-pays PPP

A user-pays PPP project is one where a third party pays a fee to use the infrastructure, and there is generally no direct payments by the state to the private sector. The project's financial performance depends on the number of users, and the cost to the state associated is generally in the form of foregone revenue. In some instances, the private sector consortium delivering a user-pays PPP is guarantee minimum revenue in the terms of the PPP and any short fall between actual user fees collected and minimum revenue guaranteed in the contract is met by the state.

EastLink and CityLink are the two PPP projects currently operating in Victoria that are being funded by user fees. There are no direct payments being made by the state to the private sector for these projects. Costs to the state are primarily associated with managing each contract.

As part of the EastLink and CityLink PPP arrangements, the state has leased certain land and road infrastructure to the private sector consortiums over the life of the contracts. At the expiration of the contracts, the assets are to be returned to the state together with the road networks.

The long-term direct financial impact on the state's Budget is significantly less for these PPPs compared to those funded through periodic service payments. The private sector generally bears some or all market (demand) risk, and the revenues earned through user fees should be sufficient to fund construction, repay debt, meet operating and maintenance costs, and generate the required equity return.

9.5 Auditing PPP arrangements

With 21 PPPs currently being operated or built by the government—on which $36.6 billion—excluding GST—of public funds will be spent—it is important that these arrangements are subject to the same scrutiny as other public spending.

However, as the state has increasingly sought partnerships, alliances or other service delivery models involving the private sector, the provisions of the *Audit Act 1994* have failed to keep pace with these developments. Consequently, the Auditor-General's mandate to review public expenditure on large projects has diminished. Simultaneously there has been continued, if not increased, expectations from the community in terms of transparency and accountability.

This issue was raised in the *Victorian Auditor-General's Office Annual Report 2013–14*, tabled in Parliament in October 2014.

9.6 East West Link

The East West Link project is a proposed 18 kilometre new roadway that will extend across Melbourne from the Eastern Freeway to the Western Ring Road. Stage 1 of the project, or the eastern section, will run 6.6 kilometres from the end of the Eastern Freeway at Hoddle Street to CityLink at the Tullamarine Freeway. In mid-2014, planning was approved for stage 1 as well as a further southerly connection to the Port of Melbourne area. The Linking Melbourne Authority (LMA) is responsible for overseeing and managing delivery of the project on behalf of the State.

In September 2014, the state entered into a PPP with a private sector consortium to design, finance, construct, operate and maintain stage 1 at an estimated cost of $5.3 billion. The total project budget—including the PPP contract, other costs to the state and ancillary projects—is $7.3 billion.

The consortium will maintain the road for a 25-year period, after which time control reverts to the state.

The state contribution is $2 billion and the Commonwealth's contribution is $1.5 billion. The remainder is to be re-paid through periodic payments to the consortium over the life of the contract. The state would use toll revenues from road users to partly fund its contribution to the project.

In 2014, the former government also announced funding to continue planning stage 2, or the western section, of the project from the Port of Melbourne area to the Western Ring Road.

As at 14 January 2015, the East West Link project has been suspended while its future is being determined by the new state government. On 7 January 2015, the state government announced that LMA is to be disbanded.

Further comments, or audit findings on this project, may be included in future VAGO reports.

9.6.1 Progress as at 30 June 2014

Geotechnical drilling for stage 1 commenced in May 2012.

A shortlist of consortiums tendering for stage 1 was released in September 2013, the consortiums submitted their bids in April 2014, and the successful tenderer was announced—and contracts signed—in September 2014.

In November 2013, LMA acquired apartments in inner Melbourne at a cost of $96 million to facilitate the project. A financial contribution of up to $14 million was agreed in connection with the relocation of sporting facilities at Royal Park. Compulsory acquisition of further properties commenced in August 2014.

9.6.2 Cost to the state

A breakdown of the budget, actual and committed expenditure, and expected completion dates for preliminary stage 1 works underway at 30 June 2014 is provided in Figure 9C.

Figure 9C
East West Link preliminary stage 1 works: budget, actual and committed expenditure, and expected completion dates as at 30 June 2014

Project component	Original budget ($mil)	Expenditure to date ($mil)	Committed expenditure ($mil)	Expected completion
Project planning and management	65	57	–	2019
Property acquisition	118	102	–	2019
Early stage works[(a)]	8	1	13	Early 2015
Total	**191**	**160**	**13**	

(a) Early stage works include the relocation of sporting facilities at Royal Park at an estimated cost of $14.1 million.

Source: Victorian Auditor-General's Office.

The former state government allocated $294 million in its 2013–14 Budget to commence procurement and preliminary works—including the preparation of a business case, engineering surveys, geotechnical drilling and property acquisitions. The timing of this funding was re-phased in the 2014–15 Budget to $191 million in 2013–14 and $103 million in 2014–15.

The state approved an additional $187 million in its 2014–15 Budget for further planning, procurement, property acquisition and other costs associated with stage 1.

9.7 Bendigo Hospital development

The Bendigo Hospital development involves the construction of a new expanded facility adjacent to the existing hospital. The project is being delivered in the following stages:

- **stage 1**—development of an integrated cancer centre and integrated mental health facilities
- **stage 2**—development of a multi-storey car park and helipad.

The Department of Health & Human Services (DHHS), in consultation with Bendigo Health, is responsible for delivering the project.

In May 2013, the state entered into a PPP with a private sector consortium to design, finance, build and maintain the new hospital for 25 years, before transferring ownership to the state.

9.7.1 Progress as at 30 June 2014

Construction of stage 1 commenced in June 2013 and is scheduled to be completed in December 2016. At 30 June 2014, site remediation, bulk excavation and construction of prototype rooms had been completed. Pouring of the basement ground slab was 90 per cent complete and formwork for level 1 of the west building and level 3 of the east building had commenced.

Construction of stage 2 is scheduled to commence in January 2017 and be completed in June 2018.

9.7.2 Cost to the state

Figure 9D details the state's financial commitments to the consortium and other costs it expects to incur over the life of the PPP.

Figure 9D
Bendigo Hospital and associated infrastructure: estimated cost of construction and operation, as at 30 June 2014

Item	Nominal value ($mil)	Net present value ($mil)
State's financial commitments to the consortium		
Design and construction of the hospital, which will lead to the recognition of a leased asset and liability of the state upon completion of construction—inclusive of GST[(a)(b)]	1 367	949
Quarterly service payments for operation and maintenance over the 25-year term—inclusive of GST[(c)]	1 594	562
Total including GST	**2 961**	**1 511**
Less GST recoverable from the Australian Taxation Office	(269)	(137)
Total excluding GST	**2 692**	**1 374**
Other estimated costs of the State		
Other project costs—exclusive of GST[(d)]	56	56
Total estimated cost—exclusive of GST	**2 748**	**1 430**

(a) The leased asset and liability will be reported in Bendigo Health Care Group's financial statements on commissioning of the new facility which is expected to occur in December 2016. The value of the asset will include construction costs funded by a $566 million state contribution, payable to the consortium upon commercial acceptance of stage 1 work.

(b) Discount rate of 8.06 per cent and 8.07 per cent used to calculate the net present value of the principal portion of stage 1 and stage 2 costs, respectively.

(c) Discount rate of 8.06 per cent and 8.07 per cent used to calculate the net present value of the interest portion of stage 1 and stage 2 costs, respectively. Discount rate of 7.18 per cent used to calculate the net present value of all other operating costs.

(d) Direct costs associated with establishing the contractual and lease arrangements, critical infrastructure work, fire services upgrade, demolition, enabling work, and relocation and building of five new ambulance stations around Bendigo.

Source: Victorian Auditor-General's Office.

As at 30 June 2014, costs of $70 million had been incurred by the state.

9.8 Victorian Comprehensive Cancer Centre

The Victorian Comprehensive Cancer Centre (VCCC) is intended to be a world-class cancer centre. Scheduled to be operational by June 2016, the facility will:

- house the relocated Peter MacCallum Cancer Centre
- provide new cancer research and clinical care facilities for Melbourne Health
- provide cancer research space for the University of Melbourne.

VCCC will consist of a north and south facility. In December 2011, the state entered into a PPP with a private sector consortium to design, finance and construct the south facility. The consortium will maintain the south facility for a 25-year period after which ownership will revert to the state. The consortium will also complete the north facility, however, these works do not form part of the PPP and are being delivered under a traditional procurement approach.

At the north facility, four new floors will be constructed on top of an existing Royal Melbourne Hospital building. They will house:

- a 42-bed critical care unit
- a new sterilising services department
- two new operating theatres—one with an intra-operative magnetic resonance imaging (MRI) machine
- a new 32-bed haematology inpatient unit.

At the south facility, a new 13 floor building will be constructed on the site formerly known as the Royal Dental Hospital. It will house:

- a 96 bed overnight inpatient unit
- 110 chemotherapy, medical and surgical same-day beds and chairs
- six operating theatres and two procedure rooms
- a dedicated clinical trials unit
- a cyclotron
- eight radiation therapy bunkers with five linear accelerators
- more than 25 000 square metres of research space
- a 700-space basement car park.

The north and south facilities will be linked by covered bridges crossing Grattan Street, Carlton.

9.8.1 Progress as at 30 June 2014

As at 30 June 2014, construction was progressing to schedule.

North facility

Site works within the existing Royal Melbourne Hospital building have been completed to enable construction of the additional four floors. Construction of the four floors has commenced. The north facility is scheduled to be completed and available for service delivery in late 2015.

South facility

Structural works of the new building have been completed up to level seven. Commercial acceptance of the south facility is scheduled for June 2016.

9.8.2 Cost to the state

North facility

A breakdown of budget, actual and committed expenditure, and the expected completion date for the north facility as at 30 June 2014 is provided in Figure 9E.

Figure 9E
VCCC north facility: budget, actual and committed expenditure, and expected completion date, as at 30 June 2014

Project component	Budget ($mil)	Expenditure to date ($mil)	Committed expenditure ($mil)	Expected completion
Construction costs	129	51	78	2015
Total	**129**	**51**	**78**	

Source: Victorian Auditor-General's Office.

As at 30 June 2014, costs of $51 million had been incurred by the state for the north facility. Upon completion, the state will be responsible for the ongoing operation and maintenance of the north facility.

South facility

Figure 9F details the state's financial commitments to the consortium and other costs the state expects to incur on the south facility.

Figure 9F
Victorian Comprehensive Cancer Centre south facility: estimated cost of construction and operation, as at 30 June 2014

Item	Nominal value ($mil)	Net present value ($mil)
State's financial commitments to the consortium		
Design and construction of the south facility, which will lead to the recognition of a leased asset and liability of the state upon completion of construction—inclusive of GST(a)(b)(c)	2 312	1 155
Quarterly service payments for the operation and maintenance over the 25-year term subsequent to construction completion—inclusive of GST(d)	888	259
Total including GST	**3 200**	**1 414**
Less GST recoverable from the Australian Taxation Office	(291)	(129)
Total excluding GST	**2 909**	**1 285**
Other estimated costs to the state		
Other project costs—exclusive of GST(e)	98	98
Total estimated cost—exclusive of GST	**3 007**	**1 383**

(a) The 2013–14 the former Department of Health's financial report disclosed that the leased asset and liability will be recognised on commissioning of the new south facility which is expected to occur in June 2016. The financed leased asset and liability will be reported in the Peter MacCallum Cancer Centre financial statements in 2015–16.

(b) Includes $300 million that the state will contribute towards the design and construction of the VCCC south facility during the construction phase.

(c) Discount rate of 9.17% used to calculate NPV

(d) Discount rate of 8.33% used to calculate NPV

(e) Management of project development, state delivered works, ICT, enabling works and relocation allowance.

Source: Victorian Auditor-General's Office.

As at 30 June 2014, costs of $164 million had been incurred by the state for the south facility.

9.8.3 Funding for the project

North facility

The north facility is funded through state and Commonwealth Government contributions.

South facility

The south facility is being funded through contributions from the state and Commonwealth governments, The University of Melbourne, as well as proceeds from the sale of Peter MacCallum Cancer Centre properties, philanthropic donations, and a loan from the Treasury Corporation of Victoria. Figure 9G details the funding sources for design and construction of the south facility.

Figure 9G
Victorian Comprehensive Cancer Centre:
south facility funding sources:

Funding source	Contribution ($mil)
Victorian Government	428.5
Commonwealth Government	426.1
Sale of Peter MacCallum Cancer Centre properties	80.0
Philanthropic sources	50.0
25-year secured loan from Treasury Corporation Victoria	41.1
The University of Melbourne	25.0
Total—excluding GST	**1 050.7**
GST	105.1
Total—including GST	**1 155.8**

Source: Victorian Auditor-General's Office

Recommendation

17. That the Department of Treasury and Finance finalises accounting and reporting guidance for public private partnership projects, and makes it available to Victorian public sector agencies.

Appendix A.

VAGO reports on the results of audits

Figure A1
VAGO reports on the results of the 2013–14 financial audits

Report	Description
Information and Communication Technology Controls Report 2013–14	The report provides an analysis of common themes relating to IT audit findings and the maturity of IT controls across selected entities, and highlights key and emerging issues observed as part of the IT audits. *Tabled in Parliament in October 2014.*
Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2013–14	The report provides the result of the audit of the state's annual financial report. It addresses the quality and timing of financial reporting and explains significant financial results for the state. *Tabled in Parliament in October 2014.*
Water Entities: Results of the 2013–14 Audits	The report provides the results of the audits of 20 entities in the water sector. The report addresses their financial and performance reporting and financial sustainability risks. It also addresses governance arrangements relating to gifts, benefits and hospitality, and audit committees. *Tabled in Parliament in February 2015.*
Portfolio Departments and Associated Entities: Results of the 2013–14 Audits	The report provides the results of the audits of 210 entities and comments on their timeliness and accuracy. The report also considers the financial sustainability risks of self-funded agencies, the internal audit function at portfolio departments, controls relating to infringement notices, the State's insurance agencies' compliance with the Prudential Insurance Standards and developments of significant projects and Private Public Partnerships during 2013–14. *This report.*
Public Hospitals: Results of the 2013–14 Audits	The report provides the results of the audits of approximately 110 entities in the public hospital sector. The report addresses their financial performance and financial sustainability risks, their internal audit functions, and their management of asset maintenance. *To be tabled in Parliament in February 2015.*
Local Government: Results of the 2013–14 Audits	The report provides the results of the audits of 103 entities in the local government sector. The report will address their financial and performance reporting, financial sustainability risks, oversight arrangements for grants, and creditor management practices and governance. *To be tabled in Parliament in February 2015.*

Figure A1
VAGO reports on the results of the 2013–14 financial audits – *continued*

Report	Description
Universities: Results of the 2014 Audits	The report provides the results of the audits of 64 entities in the university sector. The report will address their financial reporting and financial sustainability risk, and internal controls relating to travel and accommodation expenditure. *To be tabled in Parliament in May 2015.*
Technical and Further Education Institutes: Results of the 2014 Audits	The report provides the results of the audits of 25 entities in the technical and further education institutes sector. The report will address their financial reporting and financial sustainability risks, and internal controls relating to risk management practices. *To be tabled in Parliament in May 2015*.

Source: Victorian Auditor-General's Office.

Appendix B.

Financial sustainability indicators

Financial sustainability indicators

The indicators used in the financial sustainability analysis—Part 3—are shown in Figure B1.

Figure B1
Four core indicators of financial sustainability

Indicator	Formula	Description
Underlying result (%)	Adjusted net surplus/total underlying revenue	A positive result indicates a surplus, and the larger the percentage the stronger the result. A negative result indicates a deficit. Operating deficits cannot be sustained in the long term. Net result and total revenue is obtained from the operating statement and is adjusted to take into account large one-off (non-recurring) transactions.
Liquidity	Current assets/ current liabilities	This measures the entity's ability to pay existing liabilities in the next 12 months. A ratio of one or more means that there are more cash and liquid assets than short-term liabilities. Current liabilities have been adjusted to exclude long-term employee provisions and on costs that have been disclosed as current liabilities in their financial statements.
Self-financing (%)	Net operating cash flows/ underlying revenue	This measures the ability to replace assets using cash generated by operations. The higher the percentage the more effectively this can be done. Net operating cash flows are obtained from the cash-flow statement.
Capital replacement	Cash outflows for property, plant and equipment depreciation	Comparison of the rate of spending on infrastructure, property, plant and equipment and intangibles with its depreciation. This is a long-term indicator, as capital expenditure can be deferred in the short-term if there are insufficient funds available from operations, and borrowing is not an option. Cash outflows for property, plant, equipment, infrastructure and intangibles are taken from the cash flow statement. Depreciation and amortisation is taken from the operating statements.

Source: Victorian Auditor-General's Office.

Financial sustainability risk assessment

The financial sustainability of entities has been assessed using the risk assessment criteria outlined in Figure B2.

Figure B2
Financial sustainability indicators – risk assessment criteria

Risk	Underlying result (%)	Liquidity	Self-financing (%)	Capital replacement
High	**Less than negative 10%** Insufficient revenue is being generated to fund operations and asset renewal.	**Less than 1.0** Insufficient current assets to cover liabilities.	**Less than 10%** Insufficient cash from operations to fund new assets and asset renewal.	**Less than 1.0** Spending on capital works has not kept pace with consumption of assets.
Medium	**Negative 10% to zero** A risk of long-term run down to cash reserves and inability to fund asset renewals.	**1.0–1.5** Need for caution with cash flow, as issues could arise with meeting obligations as they fall due.	**10–20%** May not be generating sufficient cash from operations to fund new assets.	**1.0–1.5** May indicate spending on asset renewal is insufficient.
Low	**More than zero** Generating surpluses consistently.	**More than 1.5** No immediate issues with repaying short-term liabilities as they fall due.	**20% or more** Generating enough cash from operations to fund assets.	**More than 1.5** Low risk of insufficient spending on asset renewal.

Source: Victorian Auditor-General's Office.

The overall financial sustainability risk assessment is calculated using the ratings determined for each indicator as outlined in Figure B3.

Figure B3
Overall financial sustainability risk assessment

	Criteria for overall risk assessment
● (red)	High risk of short-term and immediate sustainability concerns indicated: • red underlying result indicator • red liquidity indicator.
● (amber)	Medium risk of longer-term sustainability concerns indicators by either: • red self-financing indicator • red capital replacement indicator.
● (green)	Low risk of financial sustainability concerns—there are no high-risk indicators.

Source: Victorian Auditor-General's Office.

Financial sustainability analysis

The financial sustainability results for the 45 self-funded entities, and the alpine resorts, is shown below.

Figure B4
Five-year average financial sustainability ratios for self-funded entities at 30 June 2014

Portfolio	Underlying result (%)	Liquidity	Self-financing (%)	Capital replacement	Overall sustainability
Education and Early Childhood Development					
Victorian Institute of Teaching	2.71%	1.75	4.50%	1.61	
Environment and Primary Industries					
Agriculture Victoria Services Pty Ltd	5.38%	2.01	17.69%	0.72	
Dairy Food Safety Victoria	8.48%	6.70	11.48%	1.20	
Energy Safe Victoria	-0.03%	1.63	5.04%	1.46	
Environment Protection Authority	31.33%	13.80	28.50%	1.94	
Grampians Regional Waste Management Group	-5.93%	2.74	-3.35%	3.08	
Murray Valley Citrus Board	-201.66%	12.12	-193.26%	1.10	
Murray Valley Wine Grape Industry Development Committee	-5.20%	12.36	-2.97%	N/A	
Phillip Island Nature Park Board of Management	4.56%	3.62	15.69%	0.92	
PrimeSafe	-4.81%	1.47	3.87%	1.69	
Veterinary Practitioners Registration Board of Victoria	5.29%	9.18	9.85%	0.84	
VicForests	0.93%	1.57	-0.24%	0.22	
Victoria Strawberry Industry Development Committee	0.16%	17.45	-1.55%	1.20	
Zoological Parks and Gardens Board	-2.74%	3.92	10.34%	1.53	
Premier and Cabinet					
Geelong Performing Arts Centre	-22.41%	2.07	1.65%	1.71	
Melbourne Recital Centre	0.30%	3.51	8.23%	0.74	
Victorian Arts Centre Trust	-30.87%	1.94	3.00%	0.52	
VITS Languagelink	3.43%	2.72	3.06%	2.58	
Justice					
Emergency Services Telecommunications Authority	-2.46%	0.89	20.41%	0.41	
Greyhound Racing Victoria	4.87%	4.80	2.54%	7.67	
Harness Racing Victoria	-1.08%	0.52	1.95%	0.60	
Legal Services Board	4.15%	1.27	3.50%	0.71	
Melton Entertainment Trust	-4.10%	0.73	1.03%	0.91	
Victorian Traditional Owners Trust	99.01%	2362.51	97.81%	N/A	
Transport, Planning and Local Infrastructure					
Melbourne and Olympic Parks Trust	5.73%	2.68	36.33%	4.57	
Melbourne Cricket Ground Trust	1.65%	73.35	1.31%	N/A	
Places Victoria	-23.35%	3.06	-10.62%	2.66	
Port of Melbourne Corporation	19.22%	0.57	36.87%	1.50	
State Sport Centres Trust	-35.14%	1.61	-6.80%	0.55	
Victorian Building Authority	10.13%	2.62	20.24%	-0.58	
Victorian Regional Channel Authority	25.66%	25.74	42.60%	0.63	

Figure B4
Five-year average financial sustainability ratios for self-funded entities at 30 June 2014 – *continued*

Portfolio	Underlying result (%)	Liquidity	Self-financing (%)	Capital replacement	Overall sustainability
State Development, Business and Innovation					
CenITex	-8.65%	1.62	-3.62%	0.77	
Docklands Studios Melbourne Pty Ltd	-57.20%	6.32	19.02%	0.04	
Emerald Tourist Railway Board	-4.34%	1.95	10.77%	1.02	
Fed Square Pty Ltd	-27.84%	3.38	18.15%	0.26	
Melbourne Convention and Exhibition Trust	-34.56%	1.92	15.42%	0.17	
Melbourne Market Authority	28.18%	15.82	47.21%	0.14	
Health					
Ballarat General Cemeteries Trust	10.21%	1.63	28.43%	2.42	
Bendigo Cemeteries Trust	-0.15%	0.78	6.93%	-29.08	
Geelong Cemeteries Trust	7.02%	3.92	31.82%	2.78	
Greater Metropolitan Cemeteries Trust	42.66%	7.75	52.72%	1.44	
Mildura Cemetery Trust	20.00%	0.83	36.19%	2.33	
Queen Victoria Women's Centre Trust	-4.33%	7.10	18.63%	0.66	
Southern Metropolitan Cemeteries Trust	43.44%	1.26	31.90%	2.78	
Victorian Pharmacy Authority	-25.08%	2.85	-25.51%	0.00	

Source: Victorian Auditor-General's Office.

Figure B5
Financial sustainability ratios for alpine resorts at 31 October 2013

Portfolio	Underlying result (%)	Liquidity	Self-financing (%)	Capital replacement	Overall sustainability
Alpine Resorts - Results at 31 October 2013					
Mount Baw Baw	-5.24%	1.06	10.98%	0.44	
Lake Mountain	-5.93%	2.26	0.77%	0.04	
Falls Creek	4.41%	3.78	19.82%	2.42	
Mount Hotham	5.47%	3.36	17.01%	0.80	
Mount Buller and Mount Stirling	2.17%	3.12	5.00%	1.54	

Source: Victorian Auditor-General's Office.

Appendix C.
Audit status

Parliament

Entity	Reporting framework		Audit opinions		Finalised within statutory time frame	
	FMA	Other	Clear opinion issued	Date opinion signed	Met	Not met
COMPLETED AUDITS WITH 30 JUNE 2014 BALANCE DATES						
Parliament of Victoria[(a)]	●		✓	18 Aug 2014	●	
Victorian Auditor-General's Office[(b)]	●		✓	6 Oct 2014		●
2013–14 Total number of entities = 2	**2**	**0**			**1**	**1**
				Per cent	50	50
2012–13 Total number of entities = 2	**2**	**0**			**2**	**0**
				Per cent	100	0

(a) The Parliament of Victoria is an audit by arrangement pursuant to section 16G of the *Audit Act 1994* and is not required to prepare a general purpose financial report, however, does so in accordance with the *Financial Management Act 1994*.

(b) The Victorian Auditor-General's Office was audited by a private sector auditor, pursuant to section 7B of the *Audit Act 1994*.

Note: Non-FMA types: C – *Corporations Act 2001*, O – Other.

Source: Victorian Auditor-General's Office.

Education and Early Childhood Development

Entity	Reporting framework		Audit opinions		Finalised within statutory time frame	
	FMA	Other	Clear opinion issued	Date opinion signed	Met	Not met
COMPLETED AUDITS WITH 30 JUNE 2014 BALANCE DATES						
Department of Education and Early Childhood Development	●		x[(a)]	2 Oct 2014		●
Adult, Community and Further Education Board	●		✓	29 Aug 2014	●	
VCAMM Limited		C		[(b)]		
Victorian Curriculum and Assessment Authority	●		✓	2 Sept 2014	●	
Victorian Institute of Teaching	●		✓	29 Aug 2014	●	
Victorian Registration and Qualifications Authority	●		✓	28 Aug 2014	●	
2013-14 Total number of entities = 6	**5**	**1**			**4**	**1**
				Per cent	67	17
2012–13 Total number of entities = 7	**5**	**2**			**6**	**0**
				Per cent	86	0

(a) The Department of Education and Early Childhood Development received a qualified audit opinion.
(b) An audit opinion has not yet been issued for this entity's 30 June 2014 financial statements.
Note: Non-FMA types: C – *Corporations Act 2001*, O – Other.
Source: Victorian Auditor-General's Office.

Environment and Primary Industries

Entity	Reporting framework		Audit opinions		Finalised within statutory time frame	
	FMA	Other	Clear opinion issued	Date opinion signed	Met	Not met
COMPLETED AUDITS WITH 30 JUNE 2014 BALANCE DATES						
Department of Environment and Primary Industries	●		✓	15 Sept 2014	●	
COMPLETED AUDITS WITH 30 JUNE 2014 BALANCE DATES						
Agriculture Victoria Services Pty Ltd		C	✓	29 Aug 2014	●	
Alpine Resorts Co-ordinating Council	●		✓	2 Oct 2014		●
Commissioner for Environmental Sustainability	●		✓	9 Oct 2014		●
Corangamite Catchment Management Authority	●		✓	17 Sept 2014	●	
Dairy Food Safety Victoria	●		✓	27 Aug 2014	●	
East Gippsland Catchment Management Authority	●		✓	8 Sept 2014	●	
Environment Protection Authority	●		✓	2 Sept 2014	●	
Glenelg Hopkins Catchment Management Authority	●		✓	25 Aug 2014	●	
Goulburn Broken Catchment Management Authority	●		✓	27 Aug 2014	●	
Gunaikurnai Traditional Owner Land Management Board	●		✓	8 Oct 2014		●
Mallee Catchment Management Authority	●		✓	27 Aug 2014	●	
Metropolitan Waste Management Group	●		✓	5 Sept 2014	●	
Murray Valley Citrus Board[(a)]	●		✓	24 Jun 2014	●	
Murray Valley Wine Grape Industry Development Committee	●		✓	29 Aug 2014	●	
North Central Catchment Management Authority	●		✓	1 Sept 2014	●	

Entity	Reporting framework		Audit opinions		Finalised within statutory time frame	
	FMA	Other	Clear opinion issued	Date opinion signed	Met	Not met
North East Catchment Management Authority	●		✓	20 Aug 2014	●	
Northern Victorian Fresh Tomato Industry Development Committee	●		✓	3 Sept 2014	●	
Parks Victoria	●		✓	29 Aug 2014	●	
Phillip Island Nature Park	●		✓	2 Sept 2014	●	
Phytogene Pty Ltd		C	✓	25 Aug 2014	●	
Port Phillip and Westernport Catchment Management Authority	●		✓	29 Aug 2014	●	
PrimeSafe	●		✓	27 Aug 2014	●	
Recreational Fishing Licence Trust Fund		O	✓	8 Sept 2014	●	
Royal Botanic Gardens Board	●		✓	27 Aug 2014	●	
Smart Water Fund	●		✓	11 Nov 2014		●
Sustainability Victoria	●		✓	27 Aug 2014	●	
Trust for Nature (Victoria)	●		✓	9 Sept 2014	●	
Veterinary Practitioners Registration Board of Victoria	●		✓	29 Aug 2014	●	
VicForests	●		✓	1 Sept 2014	●	
Victorian Environmental Water Holder	●		✓	6 Oct 2014		●
Victorian Plantations Corporation	●		✓	5 Nov 2014		●
Victorian Strawberry Industry Development Committee	●		✓	2 Sept 2014	●	
West Gippsland Catchment Management Authority	●		✓	29 Aug 2014	●	

Environment and Primary Industries – *continued*

Entity	Reporting framework		Audit opinions		Finalised within statutory time frame	
	FMA	Other	Clear opinion issued	Date opinion signed	Met	Not met
Wimmera Catchment Management Authority	●		✓	25 Aug 2014	●	
Yorta Yorta Traditional Owners Land Management Board	●		✓	7 Oct 2014		●
Zoological Parks and Gardens Board	●		✓	15 Aug 2014	●	
COMPLETED AUDITS WITH 31 JULY 2014 BALANCE DATES						
Barwon Regional Waste Management Group(b)	●		✓	8 Sept 2014	●	
Calder Regional Waste Management Group(b)	●			(c)		
Central Murray Regional Waste Management Group(b)	●		✓	3 Sept 2014	●	
Desert Fringe Regional Waste Management Group(b)	●		✓	4 Sept 2014	●	
Gippsland Regional Waste Management Group(b)	●		✓	2 Oct 2014	●	
Goulburn Valley Regional Waste Management Group(b)	●		✓	26 Sept 2014	●	
Grampians Regional Waste Management Group(b)	●		✓	9 Sept 2014	●	
Highlands Regional Waste Management Group(b)	●		✓	30 Sept 2014	●	
Mildura Regional Waste Management Group(b)	●		✓	15 Sept 2014	●	
Mornington Peninsula Regional Waste Management Group(b)	●		✓	8 Oct 2014	●	
North East Victorian Regional Waste Management Group(b)	●		✓	1 Sept 2014	●	
South Western Regional Waste Management Group(b)	●		✓	1 Sept 2014	●	

Entity	Reporting framework		Audit opinions		Finalised within statutory time frame	
	FMA	Other	Clear opinion issued	Date opinion signed	Met	Not met
COMPLETED AUDITS WITH 31 OCTOBER 2014 BALANCE DATES						
Falls Creek Alpine Resort Management Board	●		✓	23 Dec 2014	●	
Lake Mountain Alpine Resort Management Board	●			(c)		
Mount Baw Baw Alpine Resort Management Board	●			(c)		
Mount Hotham Alpine Resort Management Board	●		✓	23 Dec 2014	●	
Mt Buller and Mt Stirling Alpine Resort Management Board	●			(c)		
2013–14 Total number of entities = 54	**51**	**3**			**43**	**7**
				Per cent	80	13
2012–13 Total number of entities = 38	**38**	**0**			**32**	**5**
				Per cent	84	13

(a) This entity ceased on 28 February 2014. The audit opinion was issued on their financial statements covering the period ending 28 February 2014.

(b) This entity was abolished on 31 July 2014 following changes to the *Environmental Protection Act 1970*, as legislated through the *Environment Protection and Sustainability Victoria Amendment Act 2014*. As a result, the financial report of this entity covered a 13 month reporting period, with a balance sheet date of 31 July 2014.

(c) Opinion outstanding.

Note: Non-FMA types: C – *Corporations Act 2001*, O – Other.

Source: Victorian Auditor-General's Office.

Health

Entity	Reporting framework		Audit opinions		Finalised within statutory time frame	
	FMA	Other	Clear opinion issued	Date opinion signed	Met	Not met
COMPLETED AUDITS WITH 30 JUNE 2014 BALANCE DATES						
Department of Health	●		✓	12 Sept 2014	●	
Ambulance Services and Associated Entities						
Ambulance Victoria	●		✓	19 Aug 2014	●	
Major Cemeteries						
Ballarat General Cemeteries Trust	●		✓	21 Aug 2014	●	
Bendigo Cemeteries Trust	●		✓	22 Aug 2014	●	
Geelong Cemeteries Trust	●		✓	21 Aug 2014	●	
Greater Metropolitan Cemeteries Trust	●		✓	15 Aug 2014	●	
The Mildura Cemetery Trust	●		✓	22 Aug 2014	●	
Southern Metropolitan Cemeteries Trust	●		✓	11 Aug 2014	●	
Other Public Bodies						
Australian Health Practitioner Regulation Agency[(a)]		O	✓	29 Aug 2014	●	
Health Purchasing Victoria	●		✓	15 Aug 2014	●	
Victorian Health Promotion Foundation	●		✓	28 Aug 2014	●	
Victorian Assisted Reproductive Treatment Authority	●		✓	21 Aug 2014	●	
Victorian Institute of Forensic Mental Health	●		✓	2 Sept 2014	●	
Victorian Pharmacy Authority	●		✓	7 Aug 2014	●	
Victorian State Pool Account (of the National Health Funding Pool)		O	✓	1 Sept 2014	●	

	Reporting framework		Audit opinions		Finalised within statutory time frame	
Entity	**FMA**	**Other**	**Clear opinion issued**	**Date opinion signed**	**Met**	**Not met**
2013–14 Total number of entities = 15	**13**	**2**			**15**	**0**
				Per cent	100	0
2012–13 Total number of entities = 15	**13**	**2**			**14**	**1**
				Per cent	93	7

(a) The Australian Health Practitioner Regulation Agency is an audit by arrangement and does so in accordance with Australian Accounting Standards and the financial requirements of the *Health Practitioner Regulation National Law Act 2009.*

Note: Non-FMA types: C – *Corporations Act 2001*, O – Other.

Source: Victorian Auditor-General's Office.

Human Services

Entity	Reporting framework		Audit opinions		Finalised within statutory time frame	
	FMA	Other	Clear opinion issued	Date opinion signed	Met	Not met
COMPLETED AUDITS WITH 30 JUNE 2014 BALANCE DATES						
Department of Human Services	●		✓	12 Sept 2014	●	
Commission for Children and Young People	●		✓	16 Sept 2014	●	
Queen Victoria Women's Centre Trust	●		✓	21 Aug 2014	●	
2013–14 Total number of entities = 3	**3**	**0**			**3**	**0**
				Per cent	100	0
2012–13 Total number of entities = 3	**3**	**0**			**3**	**0**
				Per cent	100	0

Source: Victorian Auditor-General's Office.

Justice

Entity	Reporting framework		Audit opinions		Finalised within statutory time frame	
	FMA	Other	Clear opinion issued	Date opinion signed	Met	Not met
COMPLETED AUDITS WITH 30 JUNE 2014 BALANCE DATES						
Department of Justice	●		✓	19 Sept 2014	●	
Attorney-General						
Independent Broad-based Anti-corruption Commission	●		✓	11 Sept 2014	●	
Judicial College of Victoria	●		✓	11 Sept 2014	●	
Legal Practitioners Liability Committee	●		✓	16 Sept 2014	●	
Legal Services Board and the Legal Services Commissioner	●		✓	2 Oct 2014		●
Office of Public Prosecutions	●		✓	16 Sept 2014	●	
Office of the Victorian Privacy Commissioner	●		✓	29 Aug 2014	●	
Professional Standards Council of Victoria	●		✓	31 Oct 2014		●
Senior Master of the Supreme Court of Victoria[(a)]		O	✓	1 Sept 2014	●	
Sentencing Advisory Council	●		✓	11 Sept 2014	●	
Victoria Legal Aid	●		✓	26 Aug 2014	●	
Victorian Electoral Commission	●		✓	21 Aug 2014	●	
Victorian Equal Opportunity and Human Rights Commission	●		✓	17 Sept 2014	●	
Victorian Inspectorate	●		✓	29 Sept 2014		●

Justice – *continued*

	Reporting framework		Audit opinions		Finalised within statutory time frame	
Entity	**FMA**	**Other**	**Clear opinion issued**	**Date opinion signed**	**Met**	**Not met**
Victorian Institute of Forensic Medicine	●		✓	11 Sept 2014	●	
Victorian Law Reform Commission	●		✓	11 Sept 2014	●	
Victorian Traditional Owners Fund Limited		C	✓	19 Dec 2014		●
Victorian Traditional Owners Trust		O	✓	19 Dec 2014	●	
Consumer Affairs						
Residential Tenancies Bond Authority	●		✓	17 Sept 2014	●	
Gaming Regulation						
Victorian Responsible Gambling Foundation	●		✓	30 Sept 2014		●
Victorian Commission for Gambling and Liquor Regulation	●		✓	8 Sept 2014	●	
Police and Emergency Services						
Country Fire Authority	●		✓	18 Sept 2014	●	
Emergency Services Telecommunications Authority	●		✓	27 Aug 2014	●	
Metropolitan Fire and Emergency Services Board	●		✓	12 Aug 2014	●	
Victoria Police	●		✓	19 Sept 2014	●	
Victoria State Emergency Service Authority	●		✓	12 Sept 2014	●	

Entity	Reporting framework		Audit opinions		Finalised within statutory time frame	
	FMA	Other	Clear opinion issued	Date opinion signed	Met	Not met
Racing						
Greyhound Racing Victoria	●		✓	8 Sept 2014	●	
Harness Racing Victoria	●		✓	24 Sept 2014		●
HRV Management Limited		C	✓	24 Sept 2014	●	
Melton Entertainment Trust	●		✓	24 Sept 2014		●
2013–14 Total number of entities = 30	**26**	**4**			**23**	**7**
				Per cent	77	23
2012–13 Total number of entities = 31	**27**	**4**			**30**	**1**
				Per cent	97	3

(a) The Senior Master of the Supreme Court is an audit by arrangement pursuant to section 16G of the *Audit Act 1994* and is not required to prepare a general purpose financial report, however, does so in accordance with the *Supreme Court Act 1986*.

Note: Non-FMA types: C - *Corporations Act 2001*, O – Other, T – Trust.

Source: Victorian Auditor-General's Office.

Planning and Community Development

Entity	Reporting framework		Audit opinions		Finalised within statutory time frame	
	FMA	Other	Clear opinion issued	Date opinion signed	Met	Not met
2013–14 Total number of entities = 0	**0**	**0**			**0**	**0**
				Per cent	0	0
2012–13 Total number of entities = 14	**13**	**1**			**13**	**1**
				Per cent	93	7

Note: Non-FMA types: C – *Corporations Act 2001*, O – Other.
Source: Victorian Auditor-General's Office.

Premier and Cabinet

Entity	Reporting framework		Audit opinions		Finalised within statutory time frame	
	FMA	Other	Clear opinion issued	Date opinion signed	Met	Not met
COMPLETED AUDITS WITH 30 JUNE 2014 BALANCE DATES						
Department of Premier and Cabinet	●		✓	1 Sept 2014	●	
Arts						
Australian Centre for the Moving Image	●		✓	5 Sept 2014	●	
Council of Trustees of the National Gallery of Victoria	●		✓	4 Sept 2014	●	
Geelong Performing Arts Centre Trust	●		✓	20 Aug 2014	●	
Library Board of Victoria	●		✓	26 Aug 2014	●	
Melbourne Recital Centre Ltd		O	✓	29 Aug 2014	●	
Museums Board of Victoria	●		✓	25 Aug 2014	●	
State Library of Victoria Foundation	●		✓	26 Aug 2014	●	
Victorian Arts Centre Trust	●		✓	29 Aug 2014	●	
Other						
Office of the Ombudsman	●		✓	29 Aug 2014	●	
Shrine of Remembrance Trustees	●		✓	29 Aug 2014	●	
Victorian Veterans Council	●		✓	19 Aug 2014	●	
Victorian Public Sector Commission	●		✓	28 Aug 2014	●	

Premier and Cabinet – *continued*

	Reporting framework		Audit opinions		Finalised within statutory time frame	
Entity	**FMA**	**Other**	**Clear opinion issued**	**Date opinion signed**	**Met**	**Not met**
Multicultural Affairs and Citizenship						
Victorian Interpreting and Translation Services	●		✓	1 Sept 2014	●	
2013–14 Total number of entities = 14	**13**	**1**			**14**	**0**
				Per cent	100	0
2012–13 Total number of entities = 12	**11**	**1**			**12**	**0**
				Per cent	100	0

Note: Non-FMA types: C – *Corporations Act 2001*, O – Other.
Source: Victorian Auditor-General's Office.

Primary Industries

Entity	Reporting framework		Audit opinions		Finalised within statutory time frame	
	FMA	Other	Clear opinion issued	Date opinion signed	Met	Not met
2013–14 Total number of entities = 0	**0**	**0**			**0**	**0**
				Per cent	0	0
2012–13 Total number of entities = 13	**10**	**3**			**12**	**0**
				Per cent	92	0

Note: Non-FMA types: C – *Corporations Act 2001*, O – Other.

Source: Victorian Auditor-General's Office.

State Development, Business and Innovation

Entity	Reporting framework		Audit opinions		Finalised within statutory time frame	
	FMA	Other	Clear opinion issued	Date opinion signed	Met	Not met
COMPLETED AUDITS WITH 30 JUNE 2014 BALANCE DATES						
Department of State Development, Business and Innovation	●		✓	19 Sept 2014	●	
Innovation, Services and Small Business						
Australian Synchrotron Holding Company Pty Ltd		C	✓	24 Oct 2014	●	
Fed Square Pty Ltd		C	✓	11 Sept 2014	●	
Film Victoria	●		✓	25 Aug 2014	●	
Docklands Studios Melbourne Pty Ltd		C	✓	8 Sept 2014	●	
Energy Safe Victoria	●		✓	25 Aug 2014	●	
CenITex	●		✓	8 Sept 2014	●	
Tourism and Major Events						
Australian Grand Prix Corporation	●		✓	4 Sept 2014	●	
Emerald Tourist Railway Board	●		✓	2 Sept 2014	●	
Melbourne Convention and Exhibition Trust	●		✓	25 Aug 2014	●	
Melbourne Market Authority	●		✓	10 Sept 2014	●	
Tourism Victoria	●		✓	22 Aug 2014	●	
Victorian Major Events Company Limited		C	✓	19 Sept 2014	●	

	Reporting framework		Audit opinions		Finalised within statutory time frame	
Entity	**FMA**	**Other**	**Clear opinion issued**	**Date opinion signed**	**Met**	**Not met**
2013–14 Total number of entities = 13	**9**	**4**			**13**	**0**
				Per cent	100	0
2012–13 Total number of entities = 11	**7**	**4**			**11**	**0**
				Per cent	100	0

Note: Non-FMA types: C – *Corporations Act 2001*, O – Other.

Source: Victorian Auditor-General's Office.

Transport, Planning and Local Infrastructure

Entity	Reporting framework		Audit opinions		Finalised within statutory time frame	
	FMA	Other	Clear opinion issued	Date opinion signed	Met	Not met
COMPLETED AUDITS WITH 30 JUNE 2014 BALANCE DATES						
Department of Transport, Planning and Local Infrastructure	●		✓	15 Sept 2014	●	
Public Transport						
Public Transport Development Authority	●		✓	11 Sept 2014	●	
Taxi Services Commission	●		✓	11 Sept 2014	●	
Victorian Rail Track	●		✓	26 Aug 2014	●	
• Rolling Stock Holdings (Victoria) Pty Ltd		C	✓	26 Aug 2014	●	
• Rolling Stock (Victoria - VL) Pty Ltd		C	✓	26 Aug 2014	●	
• Rolling Stock (VL - 1) Pty Ltd		C	✓	26 Aug 2014	●	
• Rolling Stock (VL - 2) Pty Ltd		C	✓	26 Aug 2014	●	
• Rolling Stock (VL - 3) Pty Ltd		C	✓	26 Aug 2014	●	
V/Line Corporation	●		✓	29 Aug 2014	●	
• V/Line Pty Ltd		C	✓	29 Aug 2014	●	
Roads						
Linking Melbourne Authority	●		✓	18 Aug 2014	●	
Roads Corporation	●		✓	12 Sept 2014	●	

Entity	Reporting framework		Audit opinions		Finalised within statutory time frame	
	FMA	Other	Clear opinion issued	Date opinion signed	Met	Not met
Ports						
Port of Melbourne Corporation	●		✓	22 Aug 2014	●	
Port of Hastings Development Authority	●		✓	26 Aug 2014	●	
Victorian Regional Channels Authority	●		✓	22 Aug 2014	●	
Sports						
Melbourne and Olympic Parks Trust	●		✓	28 Aug 2014	●	
Melbourne Cricket Ground Trust	●		✓	16 June 2014	●	
State Sport Centre Trust	●		✓	29 Aug 2014	●	
Victorian Institute of Sport Trust	●		✓	25 Sept 2014		●
Victorian Institute of Sport Limited		C	✓	25 Sept 2014	●	
Planning						
Places Victoria	●		✓	26 Aug 2014	●	
Victorian Building Authority	●		✓	24 Sept 2014		●
Metropolitan Planning Authority	●		✓	4 Sept 2014	●	
Heritage Council	●		✓	16 Sept 2014	●	
Surveyors Registration Board of Victoria	●		✓	13 Oct 2014		●
Architects' Registration Board of Victoria	●		✓	30 Oct 2014		●
2013–14 Total number of entities = 27	**20**	**7**			**23**	**4**
				Per cent	85	15
2012–13 Total number of entities = 17	**11**	**6**			**17**	**0**
				Per cent	100	0

Note: Non-FMA types: C – *Corporations Act 2001*, O – Other.
Source: Victorian Auditor-General's Office.

Treasury and Finance

Entity	Reporting framework		Audit opinions		Finalised within statutory time frame	
	FMA	Other	Clear opinion issued	Date opinion signed	Met	Not met
COMPLETED AUDITS WITH 30 JUNE 2014 BALANCE DATES						
Department of Treasury and Finance	●		✓	26 Sept 2014		●
Finance						
Essential Services Commission	●		✓	5 Sept 2014	●	
Victorian Managed Insurance Authority	●		✓	5 Sept 2014	●	
• Domestic Building (HIH) Indemnity Fund	●		✓	10 Sept 2014	●	
Assistant Treasurer						
Emergency Services Superannuation Scheme	●		✓	1 Sept 2014	●	
Emergency Services Superannuation Board	●		✓	1 Sept 2014	●	
Parliamentary Contributory Superannuation Fund	●		✓	1 Sept 2014	●	
Transport Accident Commission	●		✓	12 Sept 2014	●	
• Residential Independence Pty Ltd		C	✓	20 Nov 2014		●
• Residential Independence Trust		O	✓	20 Nov 2014	●	
Victorian WorkCover Authority	●		✓	12 Sept 2014	●	
• Accident Compensation Conciliation Service	●		✓	25 Aug 2014	●	
Treasurer						
Rural Finance Corporation of Victoria	●		✓	3 Sept 2014	●	
State Electricity Commission of Victoria	●		✓	11 Sept 2014	●	

Entity	Reporting framework		Audit opinions		Finalised within statutory time frame	
	FMA	Other	Clear opinion issued	Date opinion signed	Met	Not met
State Trustees Limited		C	✓	29 Aug 2014	●	
• InveST Australian Equity Fund, inveST Balance Fund, inveST Diversified Income Fund, inveST Funds, inveST International Equity Fund, inveST Property Fund		C	✓	29 Aug 2014	●	
• Cash Common Fund 1, Cash Common Fund 2 and Charitable Common Fund		O	✓	29 Aug 2014	●	
• STL Financial Services Limited		C	✓	29 Aug 2014	●	
• State Trustees Australia Foundation		O	✓	7 Nov 2014	●	
• State Trustees Australia Foundation Open		O	✓	7 Nov 2014	●	
• Residents' Trust Fund		O	✓	29 Aug 2014	●	
Treasury Corporation of Victoria	●		✓	15 Aug 2014	●	
Victorian Funds Management Corporation	●		✓	12 Sept 2014	●	
• VFMC Australian Shares Trust		O	✓	10 Sept 2014	●	
• VFMC Cash Trust		O	✓	10 Sept 2014	●	
• VFMC Equity Trust 1		O	✓	10 Sept 2014	●	
• VFM Emerging Markets Trust and VFM Global Small Companies Trust		O	✓	10 Sept 2014	●	
• VFMC Enhanced Cash Trust		O	✓	10 Sept 2014	●	
• VFMC ESSS Private Equity Trust 2004, VFMC ESSS Private Equity Trust 2006 and VFMC ESSS Private Equity Trust 2007		O	✓	10 Sept 2014	●	
• VFMC Finance Trust		O	✓	10 Sept 2014	●	

Treasury and Finance – *continued*

Entity	Reporting framework		Audit opinions		Finalised within statutory time frame	
	FMA	Other	Clear opinion issued	Date opinion signed	Met	Not met
• VFMC Fixed Income Trust		O	✓	10 Sept 2014	●	
• VFMC Growth Fund, VFMC Balanced Fund and VFMC Capital Stable Fund		O	✓	10 Sept 2014	●	
• VFMC Insurance Strategies Trust		O	✓	10 Sept 2014	●	
• VFMC Investment Trust I		O	✓	10 Sept 2014	●	
• VFMC Investment Trust II		O	✓	15 Dec 2014	●	
• VFMC Investment Trust IV		O	✓	15 Dec 2014	●	
• VFMC Investments Pty Ltd		C	✓	10 Sept 2014	●	
• Queensland Pipeline Pty Limited		C	✓	10 Sept 2014	●	
• North Queensland Pipeline No. 1 Pty Limited and North Queensland Pipeline No. 2 Pty Limited		C	✓	10 Sept 2014	●	
• VFMC Private Equity Program 4 (Insurance) Trust and VFMC Private Equity Program 4 (Super) Trust		O	✓	10 Sept 2014	●	
• VFMC Private Equity 1A Trust and VFMC Private Equity 1B Trust		O	✓	10 Sept 2014	●	
• VFMC Ontario Inc		O	✓	10 Sept 2014	●	
• VFMC Opportunistic Strategies Trust		O	✓	15 Dec 2014	●	
• VFMC UK Investment Trust		O	✓	10 Sept 2014	●	
• VFMC Inflation Linked Bond Trust		O	✓	10 Sept 2014	●	
• VFMC International Equity Trust 1		O	✓	10 Sept 2014	●	

	Reporting framework		Audit opinions		Finalised within statutory time frame	
Entity	FMA	Other	Clear opinion issued	Date opinion signed	Met	Not met
2013–14 Total number of entities = 46	**14**	**32**			**44**	**2**
				Per cent	96	4
2012–13 Total number of entities = 45	**15**	**30**			**42**	**1**
				Per cent	93	2

Note: Non-FMA types: C – *Corporations Act 2001*, O – Other.

Source: Victorian Auditor-General's Office.

Appendix D. Glossary

Accountability

Responsibility on public sector entities to achieve their objectives, with regard to reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws, and reporting to interested parties.

Amortisation

The systematic allocation of the depreciable amount of an intangible asset over its expected useful life.

Annual attestation

A declaration—usually by the board of directors or equivalent—stating the entity's compliance with a specific framework or standard; often completed for each financial year.

Asset

A resource controlled by an entity as a result of past events, and from which future economic benefits are expected to flow to the entity.

Asset useful life

An asset's useful life is the period over which it is expected to provide the entity with economic benefits. Depending on the nature of the asset, the useful life can be expressed in terms of time or output.

Audit Act 1994

The *Audit Act 1994* establishes the operating powers and responsibilities of the Auditor-General. This includes the operations of his office—the Victorian Auditor General's Office (VAGO) as well as the nature and scope of audits conducted by VAGO.

Auditor's opinion

Written expression within a specified framework indicating the auditor's overall conclusion on the financial and performance reports based on audit evidence obtained.

Capital expenditure

Amount capitalised to the balance sheet for contributions by a public sector entity to major assets owned by the entity, including expenditure on:

- capital renewal of existing assets that returns the service potential or the life of these assets
- expenditure on new assets, including buildings, infrastructure, plant and equipment.

Capital adequacy

The level of funds held by the State of Victoria's insurance agencies to enable them to meet their claims liability, without assistance from the State of Victoria.

Also refer to the **funding ratio**.

Clear audit opinion – financial report

A positive written expression provided when the financial report has been prepared and presents fairly the transactions and balances for the reporting period in accordance with the requirements of the relevant legislation and Australian Accounting Standards.

Also referred to as an **unqualified audit opinion.**

Clearly Trivial

Matters that are inconsequential, whether taken individually or in aggregate, and whether judged by any criteria of size, nature or circumstances. The accumulation of such amounts clearly would not have a material effect on the financial report.

Conflict of Interest

A conflict of interest is a conflict between a person's public duties and private interests. When public duties are performed, a person's private interests must not influence, or be seen to influence any decisions.

Corporations Act 2001

The *Corporations Act 2001* is an act of the Commonwealth of Australia that sets out the laws dealing with business entities in Australia at federal and state levels. It focuses primarily on companies, although it also covers some laws relating to other entities such as partnerships and managed investment schemes.

Deficit

Total expenditure exceeds total revenue resulting in a loss.

Depreciation

The systematic allocation of a fixed asset's capital value as an expense over its expected useful life to take account of normal usage, obsolescence, or the passage of time.

Employee benefits provision

The liability recognised for employees accrued service entitlements, including all accrued costs related to employment comprising of wages and salaries, leave entitlements, redundancy payments and superannuation contributions.

Emphasis of matter

An auditors report can include an emphasis of matter paragraph that draws attention to a disclosure or item in the financial report that is relevant to the users of the auditor's report but is not of such nature that it affects the auditor's opinion (i.e. the auditor's opinion remains unmodified).

Enforcement order

A written document issued by the court stating that the recipient must comply with an order. If no action is taken within 28 days by a person receiving a **penalty notice**, an enforcement order will be issued.

Entity

Is a body whether corporate or unincorporated that has a public function to exercise on behalf of the state or is wholly owned by the state, including departments, statutory authorities, statutory corporations and government business enterprises.

Equity or net assets

Residual interest in the assets of an entity after deduction of its liabilities.

Expense

Outflows or other depletions of economic benefits in the form of incurrence of liabilities or depletion of assets of the entity.

Fair value

The amount for which a financial or non-financial asset could be exchanged between knowledgeable and willing parties in an arm’s-length transaction.

Financial delegation

A schedule that specifies the level or approval required for each transaction category to facilitate the execution of functions necessary for the efficient operation of the entity.

Financial reporting direction

Financial reports are prepared in accordance with Australian Accounting Standards and Interpretations as issued by the Australian Accounting Standards Board (AASB). When an AASB standard provides accounting treatment options, the Minister for Finance issues financial reporting directions to ensure consistent application of accounting treatment across the Victorian public sector in compliance with that particular standard.

Financial sustainability

An entity's ability to manage financial resources so it can meet spending commitments, both at present and into the future.

Financial Management Act 1994

An Act of the State of Victoria that establishes the financial administration and accountability of the public sector, as well as annual reporting to the Parliament by all departments and public sector entities.

Financial year

A period of 12 months for which a financial report and performance report is prepared.

Funding ratio

Relating to the state's insurance agencies, this is calculated as net assets less deferred tax assets and intangible assets divided by net outstanding claims liability.

Going concern

An entity which is expected to be able to pay its debts as and when they fall due, and continue in operation without any intention or necessity to liquidate or otherwise wind up its operations.

Internal audit

A function of an entity's governance framework that examines and reports to management on the effectiveness of risk management, control and governance processes.

Internal control

Internal control is a means by which an entity's resources are directed, monitored and measured. It plays an important role in preventing and detecting error and fraud and protecting the entity's resources.

Infringement notice

A penalty notice issued by enforcement agencies (such as Victoria Police) to persons who have committed an offence. The recipient must take action within the stated timeframe, or a **penalty notice** will be issued.

Liability

A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

Machinery of government changes

Changes made to the administrative structure of the government agencies.

Material error or adjustment

An error which may result in the omission or misstatement of information that could influence the economic decision of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances.

Modified audit opinion

A qualified or disclaimed audit opinion issued when the audit cannot be satisfied that the financial report is not free from material misstatement.

See also **qualified audit opinion**.

Net result

The net result is calculated by subtracting an entity's total expenses from the total revenue, to show what the entity has earned or lost in a given period of time.

Organisational risk

Organizational risk encompasses the totality of risk concerns as defined by the stakeholders. These include financial risk, control risk and audit risk.

Penalty notice

If an **infringement notice** is not paid or challenged within the required timeframe, a penalty notice is issued. This reminds the offender to take action within 28 days or an **enforcement order** will be issued.

Prudential Insurance Standards

Standards for set for Victorian Government insurance agencies that requires the insurance agencies to develop and implement policies addressing key risk management and operational areas including capital management, premium pricing, investment objectives and reviewing liability values. The standards are monitored by the Department of Treasury and Finance. The prudential insurance standard establishes clear expectations for the boards and management of the agencies, with an annual attestation of compliance being required from both of these parties.

Public private partnership

A public private partnership (PPP) is a long-term contract between the public and private sectors where government pays the private sector to deliver infrastructure and related services on behalf of, or in support of, government's broader service responsibilities. PPPs typically make the private sector parties who build infrastructure responsible for its condition and performance on a whole-of-life basis.

Qualified audit opinion – financial report

A qualification is issued when the auditor concludes that an unqualified opinion cannot be expressed due to one of the following reasons:

- disagreement with those charged with governance
- conflict between applicable financial reporting frameworks
- limitation of scope.

A qualified opinion shall be expressed as being except for the effects of the matter to which the qualification relates.

Relevant

Measures or indicators used by an entity are relevant if they have a logical and consistent relationship to an entity's objectives and are linked to the outcomes to be achieved.

Revaluation

Recognising a reassessment of values for non-current assets at a particular point in time.

Revenue

Inflows of funds or other enhancements or savings in outflows of service potential, or future economic benefits in the form of increases in assets or reductions in liabilities of the entity, other than those relating to contributions by owners which result in an increase in equity during the reporting period.

Risk

The chance of a negative impact on the objectives, outputs or outcomes of the entity.

Self-funded entity

Entities which generate more than 50 per cent of their revenue from sources other than appropriations and grant funding.

Significant management responsibilities

Having the authority and responsibility for planning, directing and controlling activities, directly or indirectly, of an entity.

Standing directions of the Minister for Finance

The Minister for Finance released standing directions associated with the financial management of the State. The directions are designed to supplement the *Financial Management Act 1994* by prescribing procedures that must be complied with by all departments and public bodies.

Sustainable Government Initiative

The Sustainable Government Initiative reform included the 3 600 public service workforce reduction announced as part of the Budget Update in December 2011. Additional workforce reductions of around 600 positions were announced as part of the 2012–13 Budget.

Warrant, also called an infringements warrant

A written document from the Infringements Court giving the Sheriff power to enforce an unpaid warrant. The Sheriff is able to action this through seizure and sale of property, suspension of a driving licence or vehicle registration, wheel clamping of your vehicle and/or arresting you.

Appendix E. Public private partnerships

Figure E1
Public private partnerships

Public private Partnership	Responsible agency	Description
Barwon Water Biosolids Management	Barwon Region Water Corporation and the Department of Environment and Primary Industries	A facility delivering a sustainable programme for the treatment and beneficial use of biosolids from the Black Rock water reclamation plant and a number of other Barwon Regional Water Corporation reclamation plants.
Bendigo Hospital	Department of Health and Bendigo Health	A new hospital with 372 beds, 10 operating theatres, an integrated cancer centre and mental health unit, helipad and a new multi-storey car park.
Biosciences Research Centre (AgriBio)	Department of Environment and Primary Industries and La Trobe University	A new world-class facility for agricultural biosciences research and development.
Casey Community Hospital	Department of Health	A 229 bed hospital facility that provides services including surgical, multi-day and same day services, obstetrics, paediatric, sub-acute, rehabilitation, palliative care, mental health services, and an emergency department.
Central Highlands Water Treatment Services	Central Highlands Regional Water Corporation	Construction of six water treatment plants and the provision of water treatment services to Ballarat and a number of neighbouring communities.
CityLink	Roads Corporation (VicRoads)	A 22 kilometre fully-electronic tollway connecting the Monash Freeway, West Gate Freeway and Tullamarine Freeway.
Campaspe Water Reclamation Scheme	Coliban Water Authority	A wastewater treatment facility servicing Echuca and Rochester.

Figure E1
Public private partnerships – *continued*

Public private partnership	Responsible agency	Description
Victorian County Court	Department of Justice	A fully integrated court complex located in Melbourne's legal precinct.
EastLink	Linking Melbourne Authority and Department of Transport, Planning and Local Infrastructure	A 39 kilometre fully-electronic tollway that links the Eastern Freeway in Mitcham with the Frankston Freeway in Melbourne's south east.
Emergency Service Telecommunications	Emergency Services Telecommunications Authority	A state of the art digital radio system and mobile data network used by Victoria Police, Ambulance Victoria and the Metropolitan Fire and Emergency Services Board.
Grampians Wimmera Mallee Water Treatment Services	Grampians Wimmera Mallee Water Corporation	Construction of four water treatment plants and the provision of water treatment services to Ararat, Stawell, Halls Gap, Great Western and Pomonal.
Melbourne Convention Centre	Department of State Development, Business and Innovation	A purpose built convention centre that can accommodate 5 000 convention delegates.
Peninsula Link	Linking Melbourne Authority	A 27 kilometre four lane motorway connecting the Frankston Freeway–EastLink Interchange at Carrum Downs to the Mornington Peninsula Freeway at Mount Martha.
Partnerships Victoria in Schools	Department of Education and Early Childhood Development	Construction of 11 new schools and a number of integrated community hubs located in Melbourne's growth areas.
Royal Children's Hospital	Department of Health and the Royal Children's Hospital	A new hospital delivering quality tertiary health care services to children in both metropolitan Melbourne and rural and regional Victoria.
Royal Melbourne Showground	Department of Environment and Primary Industries	Restoration of key historic buildings at the Royal Melbourne Showgrounds and construction of new facilities to create a flexible multi-purpose venue which can be used throughout the year.

Figure E1
Public private partnerships – *continued*

Public private partnership	Responsible agency	Description
Royal Women's Hospital	Department of Health and the Royal Women's Hospital	A stand-alone specialist hospital providing services in areas such as gynaecology, obstetrics, neonatal paediatrics, cancer care, menopause and sexual health treatment.
Southern Cross Station	Public Transport Victoria and the Department of Transport, Planning and Local Infrastructure	A redeveloped transport interchange that provides transport linkages between Melbourne and regional Victoria.
Victorian Comprehensive Cancer Centre	Department of Health	A purpose-built facility for cancer research, treatment, care and education.
Victorian Correctional Facilities	Department of Justice	Construction of four correctional facilities and the provision of facility management services, some security services and infrastructure services.
Victorian Desalination Plant	Department of Environment and Primary Industries	A new desalination plant capable of supplying up to 150 billion litres of water a year to the greater Melbourne and Geelong area.

Source: Victorian Auditor-General's Office.

Appendix F.

Audit Act 1994 section 16— submissions and comments

Introduction

In accordance with section 16(3) of the *Audit Act 1994*, a copy of this report, or part of this report, was provided to all portfolio departments and named agencies with a request for submissions or comments.

The submissions and comments provided are not subject to audit nor the evidentiary standards required to reach an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with the agency head.

Responses were received as follows:

Further audit comment:

RESPONSE provided by the Secretary, Department of Treasury and Finance

Department of Treasury and Finance

1 Treasury Place
GPO Box 4379
Melbourne Vic 3001
Australia
Telephone: (+61 3) 9651 5111
Facsimile: (+61 3) 9651 5298
DX 210759

RECEIVED
-5 FEB 2015
VICTORIAN AUDITOR-GENERAL'S OFFICE

5 FEB 2015

Mr John Doyle
Auditor-General
Victorian Auditor-General's Office
Level 24, 35 Collins Street
MELBOURNE VIC 3000

John

Dear ~~Mr Doyle~~

PROPOSED DRAFT: PORTFOLIO DEPARTMENTS AND ASSOCIATED ENTITIES REPORT 2013-14

Thank you for your letter of 28 January 2015 inviting a response to the proposed performance audit report: *Portfolio departments and associated entities report 2013-14*.

The Department of Treasury and Finance notes the findings of the report and broadly accepts the recommendations.

A proposed action plan for implementation of each recommendation is attached to this letter.

Thank you for the opportunity to comment on the report.

Yours sincerely

David Martine
Secretary

Victoria

RESPONSE provided by the Secretary, Department of Treasury and Finance – continued

Department of Treasury and Finance

Auditor-General's performance audit on Portfolio departments and associated entities report 2013-14

4 February 2015

The Department welcomes the opportunity to comment on the audit report. The Department's specific management response is detailed below.

Recommendation	Proposed action	Completion date
1. The State of Victoria's Annual Financial Report be subject to review by an independent audit committee.	The Annual Financial Report (the AFR) is the annual consolidated financial report of the State of Victoria prepared by the Department of Treasury and Finance (DTF) on behalf of the Treasurer of Victoria, from the consolidation of financial information provided by relevant public sector entities. As required by the State's financial management framework established under the *Financial Management Act 1994* (FMA), each of the State's consolidated entities are subject to independent governance and oversight arrangements supporting the integrity of their financial management systems and processes, and the quality and appropriateness of both internal and external financial reporting. Responsibility for oversighting the preparation and fair presentation of the State's AFR, using the financial information provided by public sector entities, rests with the Budget and Financial Policy Committee (BFPC) of the department. In discharging this responsibility, the role of BFPC is complemented by the department's own independent audit committee which oversights the DTF control environment, and also by others within the department with relevant expertise in financial reporting as part of an extensive and comprehensive review and quality assurance process. In preparation for the 2014-15 AFR, DTF will consider appropriate governance arrangements in consultation with the Treasurer.	30 September 2015

RESPONSE provided by the Secretary, Department of Treasury and Finance – continued

Recommendation	Proposed action	Completion date
2. The financial reporting directions and standing directions under the *Financial Management Act 1994* should be applicable to the State of Victoria's Annual Financial Report.	While the manner and form of the AFR is determined by the Treasurer, it is important to acknowledge that the AFR is prepared in compliance with the accounting and disclosure requirements of all applicable Australian Accounting Standards. Financial Reporting Directions (FRDs) and standing directions are issued under section 8 of the FMA and can only be directed to departments and agencies or the relevant accountable officer or chief finance and accounting officer. This reflects their purpose which is to drive consistent reporting and accounting practices across the public sector to help ensure entities are well placed to comply with accounting standards and, where standards provide choices, to limit the choices so there is consistency across the sector to support whole of government reporting. From an accounting perspective, they establish a "consistency" pre-condition for the preparation of the State's consolidated reports. There are several FRDs which establish some additional reporting requirements for entities (such as reporting on contractors and consultants), but these disclosures are best focused at a local entity accountability level. In relation to the executive remuneration and related party disclosures under FRD 21B, for example, the relevant information is appropriately available in the annual report of each relevant department and public body. To collate and attempt to publish the disclosures of Responsible Persons, Executive Officers and Other Personnel for the whole of the State in the AFR would be a costly exercise with questionable additional disclosure benefit. Nevertheless, where there is merit in extending AFR disclosures beyond those required by Australian Accounting Standards, it is within the government's remit to implement any such changes without the need to refer back to FRDs or ministerial directions. DTF will undertake to consult with the Victorian Auditor-General's Office on other potential areas of further disclosures for consideration by the Treasurer.	30 September 2015
3. The Treasurer of Victoria should sign the certification of the State of Victoria's Annual Financial Report.	Since the enactment of the FMA in 1994, the management certification for the AFR has been signed-off by the Secretary and other senior officers of DTF. Since 2010, this has been supported by a formal ongoing Treasurer delegation to the department under the provisions of the FMA. DTF will consult with the Treasurer on the signing arrangements prior to the finalisation of the State's 2014-15 AFR.	30 September 2015

RESPONSE provided by the Secretary, Department of Treasury and Finance – continued

Recommendation	Proposed action	Completion date
4. That portfolio departments and associated entities: review their financial reporting processes to address the better practice financial reporting elements identified in this report, including the preparation of shell financial statements	DTF does follow better practice financial reporting processes and will seek more detail from VAGO on how the Department rated against each element under section 2.4.3 (Portfolio department financial reporting). With these ratings, DTF and its portfolio entities will consider any process improvements against each of the specific Better Practice elements.	August 2015
5. address identified internal control issues in a timely manner	DTF has three recommendations outlined in the FY2013/14 Management Letter from VAGO. These recommendations relate to: • excessive annual leave balances; • accounts payable/vendor management functions; and • Cenitex assurance as an outside service provider. All of these are being addressed in accordance with implementation dates agreed with VAGO.	As per agreed timelines outlined in the VAGO Management Letter (for year ended June 2014)
6. through audit committees, implement appropriate monitoring mechanisms to ensure audit findings are resolved by management on a timely basis	Outstanding audit findings for actioning are tabled as a standing agenda item at each DTF Audit and Risk Committee meeting to ensure these are being followed up and actioned in a timely manner.	Ongoing process for review
7. That the Department of Treasury and Finance: works with self-funded entities to review their underlying pricing model, and sources of funding, in order to improve their long-term financial sustainability	DTF supports continuing to review the pricing and funding of these entities to improve, where appropriate, their long-term financial sustainability. Often the pricing model, either for commercial or policy reasons, does not always allow these entities to fully recover depreciation. While operating commercially, most are sufficiently self-funding to cover direct cash operating costs but not sufficiently self-funding to fully provide for asset replacement or upgrading. Fully or partially funding the depreciation costs would result in potentially large cash reserves being held for many years. Decisions on whether and when the State wishes to fund asset replacement or upgrading or new asset acquisitions for these entities is a future policy decision, which the State should make at the time the assets are required to be replaced or upgraded. Entities can seek funding as part of the annual budget process in the context of whole of government asset management and service delivery objectives and priorities.	Ongoing

RESPONSE provided by the Secretary, Department of Treasury and Finance – continued

Recommendation	Proposed action	Completion date
8. That portfolio departments and associated entities: improve and document processes for the assessment and mitigation of potential conflicts of interest of internal auditors, and ensure that this is not compromised when engaging internal audit service providers to perform additional services	KPMG's contract with DTF contains a conflict of interest clause, and at each Audit and Risk Committee meeting any conflict of interest is always checked. Additional services engaging internal audit services are subject to DTF's procurement process.	Ongoing and address in next tender process for internal auditors
9. improve the key performance measures used to review the internal audit function, and utilise these to conduct regular assessments of the function	Processes are reviewed annually to identify possible improvements and discussed with DTF's internal auditors. Standard practice is monthly reporting to the contract manager on performance, reporting to every Audit and Risk committee meeting and an annual performance review.	Ongoing and conduct a review by 30 June 2015
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	DTFs deliverables remain fairly consistent. Each year DTF audits core functions and then consults the risk register regarding further specific audits that should be included from year to year. Annual expenditure on internal audit has generally increased each year, or during each contract period.	Review audit requirement when planning for the 2015-16 period and when next retendering
11. That the Department of Treasury and Finance: 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;	The current supervisory arrangements that DTF have put in place are as follows: • insurers' investments portfolios are managed by the Victorian Funds Management Corporation which is subject to supervision by an independent prudential supervisor; • an external actuary reviews each insurer's claims experience and movements in the liability on a six-monthly basis; • DTF monitors insurers' financial positions on a quarterly basis and meets with each agency to discuss their results; and • all insurers' financial statements are audited by VAGO on an annual basis. DTF will consult further with the Government in relation to the adequacy of these arrangements.	Subject to review

RESPONSE provided by the Secretary, Department of Treasury and Finance – continued

Recommendation	Proposed action	Completion date
12. should provide additional guidance to insurers regarding the level, and frequency, of internal audits to be conducted at all insurer to ensure a consistent and comprehensive approach.	DTF is currently revising the Prudential Insurance Standard and will include additional guidance materials on this matter in the revised Standard.	June 2015
17. That the Department of Treasury and Finance finalise accounting and reporting guidance for PPP projects, and make it available to Victorian public sector agencies.	The referred DTF guidance was developed initially with a view of broader circulation to Victorian public sector agencies, but DTF has since recognised that each PPP arrangement has its own unique characteristics and no two PPPs are the same, as acknowledged in the report. This substantially reduces the value of generic guidance. Recognising the complexity and uniqueness of recent PPP arrangements, DTF has since strongly encouraged and worked with agencies to engage specialists to seek specific accounting advice for each PPP project. To mitigate the risk of inconsistent accounting treatments, each accounting advice is generally prepared in consultation with DTF, which are in turn considered based on the principles and guidance that was prepared in consultation with VAGO. Through these arrangements, DTF has also engaged with each of the specialist accounting firms to facilitate understanding of the State's accounting approach and principles as reflected in the guidance material to minimise risk of inconsistencies. It is intended that the guidance material will remain an internal resource for DTF to facilitate its training workshops, rather than as material for each agency to interpret and develop their own accounting treatments, which increases risk of inconsistencies. DTF notes that the Australian Accounting Standards Board is intending to issue a new accounting standard to prescribe the accounting treatment and disclosures of PPP transactions shortly. DTF will reassess the need to develop and issue supplementary guidance once the new standard is released.	Under review

Acting Auditor-General's response to the Department of Treasury and Finance

The Secretary's response states that our recommendations are broadly accepted. What follows is an 'action' plan in which seven recommendations were actually accepted. Six recommendations had an agreement either to consider or to further consult. This is disappointing.

RESPONSE provided by the Secretary, Department of Education and Training

Department of Education and Training

Office of the Secretary

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- 4 FEB 2015
VICTORIAN AUDITOR-GENERAL'S OFFICE

COR007422

Mr John Doyle
Auditor-General
Victorian Auditor-General's Office
Level 24, 35 Collins Street
MELBOURNE VIC 3000

Dear Mr Doyle

Thank you for your letter dated 28 January 2015 inviting us to comment on the draft extracts of your proposed audit report *Portfolio Departments and Associated Entities: Results of the 2013-14 audits* where it relates to the Department of Education & Training ('the Department', formerly the Department of Education and Early Childhood Development).

I have noted your comments that several material audit adjustments had been made during the 30 June 2014 audit. Of the financial adjustments made, these related to four issues with a net impact of $6.1 million.

The Department remains focused on ensuring that its financial statements are presented fairly for the reporting period, in accordance with accounting standards and applicable legislation.

I am committed to seeking to address the issues you have raised regarding timeliness and better practice criteria as we finalise our accounts this financial year.

In response to section 4 of your report, it is pleasing to note the finding that internal audit function across the portfolio Departments are generally sound. The Department concurs with your view that internal audit is essential as a source of assurance and improvement to support the achievement of organisational objectives. The Department will continue to implement initiatives that will enhance the efficiency and effectiveness of its internal audit function.

Yours sincerely

Gill Callister
Secretary

4 / 2 /2015

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RESPONSE provided by the Acting Secretary, Department of Justice & Regulation

Department of Justice & Regulation

Secretary

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4 FEB 2015

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Our ref: CD/15/38122

Mr John Doyle
Auditor-General
Victorian Auditor-General's Office
Level 24, 35 Collins Street
MELBOURNE VIC 3000

Dear Mr Doyle

Proposed Report: Portfolio Departments and Associated Entities: Results of the 2013-14 audits

Thank you for your letter dated 28 January 2015 enclosing the proposed audit report *Portfolio Departments and Associated Entities: Results of the 2013-14 audits* (the report) and the invitation to provide a formal response.

The Department of Justice & Regulation (the department) accepts the recommendations that are appropriate to the department and has developed an action plan (Attachment 1).

Thank you for the opportunity to comment on the report.

Yours sincerely

Dr Claire Noone
Acting Secretary

Encl. Proposed Action Plan - *Portfolio Departments and Associated Entities: Results of the 2013-14 audits*

State Government Victoria

RESPONSE provided by the Acting Secretary, Department of Justice & Regulation – continued

Attachment 1: Proposed Action Plan – *Portfolio Departments and Associated Entities: Results of the 2013-14 audits*

Department of Justice response to VAGO recommendations

Recommendation	Proposed Action	Completion Date
Recommendation 4 That portfolio departments and associated entities review their financial reporting processes to address the better practice financial reporting elements identified in this report, including the preparation of shell financial statements.	The department has reviewed its financial reporting processes in relation to the better practice financial reporting elements identified in this report. Each element already existed as part of the department's financial reporting process. However, regular review of these processes will continue to ensure alignment with the better practice financial reporting elements.	N/A
Recommendation 5 That portfolio departments and associated entities address identified control issues in a timely manner.	The department will continue to address control issues in a timely manner, including but not limited to process improvement, training, and system security reviews.	N/A
Recommendation 6 That portfolio departments and associated entities through audit committees, implement appropriate monitoring mechanisms to ensure findings are resolved by management on a timely basis.	The department has existing appropriate processes for monitoring recommendations for internal and external audit recommendations. On a quarterly basis, Deputy Secretaries review, and attest to, progress against internal and external audit recommendations. Attestations are subsequently reviewed by the department's Audit and Risk Management Committee (ARMC). In addition, the department's Internal Audit function conduct an annual Follow-Up Audit on a sample of internal and external audit recommendations as part of the Annual Internal Audit Plan.	N/A

TRIM ID: CD/15/38122

RESPONSE provided by the Acting Secretary, Department of Justice & Regulation – continued

Recommendation	Proposed Action	Completion Date
Recommendation 7 That portfolio departments improve and document processes for the assessment and mitigation of potential conflicts of interest of internal auditors, and ensure that this is not compromised when engaging internal audit service providers to perform additional services.	The department has existing processes to protect against perceived and/or actual conflicts of interests. Perceived and/or actual conflicts of interests are raised in fortnightly status meetings between departmental staff and the outsourced internal audit service provider. In addition, internal audit declare, at each ARMC, any work they are undertaking for, or which may impact upon, the department.	N/A
Recommendation 8 That portfolio departments improve the key performance measures used to review the internal audit function, and utilise these to conduct regular assessments of the function.	The department has an existing performance review regime. Fortnightly status meetings are conducted between departmental staff and the outsourced internal service provider. These meetings include a standing agenda item around performance matters. In addition, the department undertakes an annual review of the outsourced internal audit service provider, which is provided to the ARMC for its review.	N/A
Recommendation 9 That portfolio departments 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.	The department reviewed its expenditure on internal audit activities in 2012, prior to it executing a three year contract with the current outsourced internal audit service provider. The Annual Internal Audit Plan is based upon the department's risk profile and discussions with senior officers regarding areas of potential exposure. The Annual Plan is endorsed by the Justice Senior Executive Group prior to it being approved by the ARMC.	N/A

TRIM ID: CD/15/38122

RESPONSE provided by the Acting Secretary, Department of Justice & Regulation – continued

Recommendation	Proposed Action	Completion Date
Recommendation 11 The Department of Justice & Regulation obtains assurances over the operating effectiveness of internal controls at third party service providers.	The department will seek further assurance from third party service providers over their internal controls, including the IT environment, and will seek a report from those providers complying with appropriate financial reporting standards	30 June 2015
Recommendation 12 The Department of Justice & Regulation routinely reports on, and undertakes an analysis of, the categories and types of fines written off in order to improve the collection of unpaid fines	The department will report on and analyse the categories of fines written off. The department notes that, as discussed in the report, this will be in addition to the comprehensive analysis and reporting of fines collected throughout the infringement life-cycle the department currently undertakes.	1 May 2015

TRIM ID: CD/15/38122

RESPONSE provided by the Chief Executive Officer, Arts Centre Melbourne

Arts Centre Melbourne

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VICTORIAN AUDITOR-GENERAL'S OFFICE

2 February 2015

Mr John Doyle
Auditor-General
Victorian Auditor-General's Office
Level 24, 35 Collins Street
Melbourne Vic 3000

Dear Mr Doyle

Proposed Audit Report: Results of the 2013-14 audits – Victorian Arts Centre Trust

We acknowledge the risks and resulting conclusion applicable to the Victorian Arts Centre Trust outlined in the *Portfolio Departments and Associated Entities: Results of the 2013-14 audits and* provide the following response for inclusion in the report.

The sustainability position of Arts Centre Melbourne has been identified as a long term risk for more than a decade as the organisation does not have the capacity to generate sufficient revenue from operations to meet the financial obligations and to fund asset replacement and renewal.

ACM's core business is critically dependent on maintaining both the amenity of the facilities in the public spaces and the amenity of the theatres in the performance spaces – particularly in view of the paid attendance and reliance on a broad range of earned revenues from discretionary customer expenditure and the reliance on venue rental income. ACM's operational capacity relies on adequate levels of funding being available for repairs maintenance and renewal. The venues need to continue to be operational and reliable; the look and feel of the buildings needs to be maintained at a level that ensures that patrons remain comfortable, safe and secure.

The Government undertook a sustainability review in late 2013 and provided for sustainability funding of $5.0M for the two years 2014-15 and 2015-16. The sustainability funding has contributed in part to this identified shortfall in maintaining the amenities in the current condition; however both the backlog of maintenance activities and the replacement of end of life assets remains a critical risk.

Without this ongoing additional government support the Victorian Arts Centre Trust will continue to face major financial challenges.

Yours sincerely

Claire Spencer
Chief Executive Officer

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RESPONSE provided by the Chief Executive Officer, Docklands Studios Melbourne

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4 February 2015

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- 4 FEB 2015
VICTORIAN AUDITOR-GENERAL'S OFFICE

Mr John Doyle
Auditor General
Victorian Auditor-General's Office
Level 24
35 Collins Street
Melbourne VIC 3000

Dear Mr Doyle,

Proposed Audit Report – Portfolio Departments and Associated Entities Results of the 2013-14 Audits

I refer to the above report on the financial sustainability of self-funded public sector entities.

The report states that "Docklands Studios may have insufficient revenue to renew their assets as required. These results indicate that the Docklands Studios has short and long-term financial challenges".

Asset Maintenance

In the financial year 2010-11 DSM established a long-term fund to provide for the upkeep of the Studio's assets and infrastructure.

The fund's objective is to cover long-term maintenance and asset renewal tasks, such as road repair, replacement of air-conditioning chillers and re-painting the sound stages. In 2014-15 a provision of $357,000 has been allocated, which will take the total to a balance in excess of $1.2 million at 30 June 2015 after expenditure for the year. The annual allocation to this fund is budgeted to increase by 5% each year.

The establishment of the long term fund by DSM ensures that the existing assets are maintained to a high standard which enable the Studio to continue operating and providing services at the current level.

Asset Renewal

We acknowledge that the replacement of significant assets – eg buildings held by the Studio cannot be funded by DSM and will be dependent on government funding. It should be noted however that the majority of these assets (86% of the June 2014 value)

www.dsmelbourne.com

RESPONSE provided by the Chief Executive Officer, Docklands Studios Melbourne – continued

still have a remaining useful life of around 28 years and as such there will no funding requirements for the renewal or replacement of these assets in the foreseeable future. Indeed we believe that the establishment of the long term maintenance fund will help prolong the requirement to replace significant assets and extend their current useful lives.

As a result of these measures, we do not agree with the statement that the Studio will be faced with short term financial challenges.

Yours sincerely,

Rod Allan
Chief Executive Officer

RESPONSE provided by the General Manager, Geelong Performing Arts Centre

gpac
Geelong Performing Arts Centre

3rd February 2015

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VICTORIAN AUDITOR-GENERAL'S OFFICE

Mr Jonathan Kyvelidis
Acting Sector Director
Transport, Planning and Insurance
Financial Audit
VAGO

Dear Mr Kyvelidis

GPAC has reviewed the **"Proposed audit report—Portfolio departments and associated entities: Results of the 2013-14 Audits"** and confirms that the report is a reasonable reflection of GPAC's position.

It should be noted though, that while GPAC is, in effect, a self-funded entity, larger scale building maintenance and asset replacement requires additional funding from government. GPAC's self-generated funds are fully utilised in offsetting general operations costs and are not used to offset any asset depreciation expenses.

Funding for larger scale building maintenance and asset replacement is sought from government through the Annual State Budget process or the Cultural Facilities Maintenance Fund managed by Creative Victoria.

Yours sincerely

Jill Smith
General Manager

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RESPONSE provided by the Chief Executive, Melbourne Convention Exhibition Centre

MELBOURNE CONVENTION EXHIBITION CENTRE

3 February 2015

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- 4 FEB 2015
VICTORIAN AUDITOR-GENERAL'S OFFICE

Mr John Doyle
Auditor-General
Victorian Auditor-General's Office
Level 24, 35 Collins Street
Melbourne VIC 3000

Dear Mr Doyle

RE: Audit Act 1994, S16 (3) – Proposed Audit Report
Portfolio Departments and Associated Entities: Results of the 2013-14 Audits

Thank you for the opportunity to provide comments in response to your above audit report which will be tabled in the Victorian Parliament in February.

The Melbourne Convention and Exhibition Trust (MCET) has been rated by VAGO as having a high financial sustainability risk in each of the five years since 2009-10. This is despite growing revenues over that period, in fact record high revenues of $82.8 million are recorded in the 2013-14 Annual Report. The Melbourne Convention and Exhibition Centre (MCEC) has never been more financially healthy, with a very strong book of future business already secured and up to 20% of new business being turned away due to space constraints. Further, major expansion plans are well underway and the related business case is supported by a financial model which suggests the future of the Centre is indeed sustainable.

VAGO's sustainability metrics for MCET are principally due to the allocation to MCET in 2009 of a loan of $227.7 million from the former Department of State Development , Business and Innovation (DSDBI). This 25 year loan (at a fixed interest rate of 6.26% pa) was issued as part of the funding arrangements for the construction of the Melbourne Convention Centre which opened in 2009.

The loan was applied just prior to the finalisation of the construction of the new convention centre and had not been previously included in the business case or operational forward forecasts by MCET.

Subsequent to the execution of the loan agreement, the then Secretary of DSDBI provided a letter of comfort to MCET deferring loan repayments for the 2008-09 and 2009-10 years and also providing that if MCET requested a deferral for 2010-11 or any later year then the request would be granted to the extent that the total of scheduled loan instalment payments

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RESPONSE provided by the Chief Executive, Melbourne Convention Exhibition Centre – continued

MELBOURNE CONVENTION EXHIBITION CENTRE

were greater than 75% of MCET's net cash flows from operating activities as disclosed in the Annual Report in respect of that financial year.

For all years from 2010-11 onwards, MCET has made such requests which have been granted by the DSDBI Secretary. Consequently, loan repayments have been limited to 75% of MCET's net cash flows from operating activities and the total loan liability has increased, reflecting the capitalisation of loan interest payable pursuant to the deferral of loan repayments under this arrangement.

On 27 June 2014, DSDBI advised MCET that effective from 1 July 2013, the fixed interest rate on the loan had been reduced to 3.78% pa and a loan variation agreement was signed on 24 July 2014. The effect of this interest rate reduction is that the 2013-14 loan repayment approximated the interest due, that is, the loan principal was not reduced.

The now Department of Economic Development, Jobs, Transport and Resources (DEDJTR) recognises that MCET's business fundamentals, supported by its net cash flows, never contemplated such a loan arrangement.

DEDJTR and MCET are continuing to discuss this situation with a view to re-casting the institutional funding arrangements of MCET such that it remains a sustainable and successful business, whether or not the proposed expansion plans proceed.

I would be pleased to further discuss this matter with you as required.

Yours sincerely

Peter King
Chief Executive

RESPONSE provided by the Chairman, Mt Buller Mt Stirling Alpine Resort Management Board

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4 February 2015

Jonathan Kyvelidis
Acting Sector Director:
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Level 24, 35 Collins Street
Melbourne VIC 3000

Dear Mr Kyvelidis,

Re: Portfolio departments and associated entities: Results of the 2013–14 Audits

Thank you for the opportunity to make comment on the Report: *Portfolio departments and associated entities: Results of the 2013–14 Audits.*

The Mt Buller Mt Stirling Alpine Resorts Management Board feels that unfortunately due to the superficial and summary nature of the report, which does not make reference to the significant differences between the individual resorts, that the report is of limited value and potentially provides misleading messages.

Notwithstanding that observation, the conclusions drawn are relevant, which is a situation that has been acknowledged by the resorts and government over recent years and has resulted in some significant changes made to deal with these concerns particularly at the smaller resorts. It is disappointing that the report does not acknowledge these changes as they are relate directly to the observations of the report, these issues having been appreciated some time ago.

The six (6) Victorian Alpine Resorts are managed through 5 Alpine Resort Management Boards and the overall Victorian Alpine Sector results have been impacted by two (2) outlier entities, Mt Baw Baw and Lake Mountain Resorts. In reviewing each resort's last 5 years Annual Report data, and analysing where the deficits and funding sources were from, 81% of Government funding including grants were given to Mt Baw Baw and Lake Mountain resorts combined, and the total underlying deficit for the Alpine Resorts portfolio over the 5 years was more than accounted for by those 2 resorts. We would refer you to appendix B showing the individual resorts sustainability ratios etc.

Furthermore, we note that while asset values have remained relatively constant, it cannot be overlooked that the balances are comprised of significant items of infrastructure for which approaches to valuation have produced significant variances. Additionally large sell offs of private sector assets at some resorts have had a significant impact on site values in other resorts.

RESPONSE provided by the Chairman, Mt Buller Mt Stirling Alpine Resort Management Board – continued

On its part Mt Buller Mt Stirling Alpine Resorts Management Board has a resort master plan in place which drives asset improvement and capital expenditure. Expenditure in recent years has deliberately been constrained by the Board as it prepares for major capital investment on new assets and asset improvement in the short and medium term. Our board believes this to be a financially prudent measure which has not been acknowledged in the report.

In 2013, in response to its own view on financial sustainability, the Mt Buller Mt Stirling Alpine Resorts Management Board created a Board subcommittee responsible for Future Business Modeling. The terms of reference for this committee are to review the business model and structure to ensure its ongoing sustainability.

While in general terms the report makes some valid points, it is however disappointing that earlier and more thorough ARMB feedback and input was not sought. The report would be vastly more valuable if it included the activities and actions already initiated by Boards and Government, and provided appropriate disclosure of the significant differences in the underlying data by individual resort.

Regards.

Jennifer Hutchison

Jennifer Hutchison
Chairman
Mt Buller, Mt Stirling
Alpine Resort Management Board.

RESPONSE provided by the Director Corporate Services, Falls Creek Resort Management

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4 February 2015

Mr John Doyle
Auditor General
VAGO
Level 24, 35 Collins Street
MELBOURNE VIC 3000

Dear Mr Doyle

Audit Act 1994 s16(3) – Proposed Audit Report
Portfolio Departments and Associated Entities: Results of the 2013-14 audits

Please find feedback from Falls Creek Resort Management (FCRM) on the proposed audit report below.

We note that under section 7.1, there is no reference to building an all year model to improve financial sustainability. One key way FCRM is working to generate surpluses and be financial sustainable is to improve its green season product. We are pleased to note that under section 7.3 Falls Creek is assessed as a low risk for financial sustainability.

The recommendation (No. 13) is consistent with the work being undertaken by FCRM. In March 2013, an Organisational Review was commissioned by the FCRM Board. The Review was determined as appropriate by the Board in order to meet FCRM's obligations under the Victorian Government's Alpine Resorts Strategic Plan 2012. The Organisation Review report was received by the Board in October 2013 and reviewed the Organisation's ongoing sustainability position now and into the future. The report determined that FCRM must work towards increased revenue and organisational savings. Implementation of the Organisational Review recommendations accepted by the Board is ongoing.

Thank-you for the opportunity to provide feedback on the proposed report.

Regards

Linda Griffiths-Brown
Director Corporate Services

Auditor-General's reports

Reports tabled during 2014–15

Report title	Date tabled
Technical and Further Education Institutes: Results of the 2013 Audits (2014–15:1)	August 2014
Coordinating Public Transport (2014–15:2)	August 2014
Managing the Environmental Impacts of Transport (2014–15:3)	August 2014
Access to Legal Aid (2014–15:4)	August 2014
Managing Landfills (2014–15:5)	September 2014
Management and Oversight of the Caulfield Racecourse Reserve (2014–15:6)	September 2014
Effectiveness of Catchment Management Authorities (2014–15:7)	September 2014
Heatwave Management: Reducing the Risk to Public Health (2014–15:8)	October 2014
Emergency Response ICT Systems (2014–15:9)	October 2014
Public Sector Performance Measurement and Reporting (2014–15:10)	October 2014
Mental Health Strategies for the Justice System (2014–15:11)	October 2014
Information and Communications Technology Controls Report 2013–14 (2014–15:12)	October 2014
Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2013–14 (2014–15:13)	October 2014
Additional School Costs for Families (2014–15:14)	February 2015
Responses to 2012–13 Performance Audit Recommendations (2014–15:15)	February 2015
Water Entities: Results of the 2013–14 Audits (2014–15:16)	February 2015

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