

Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2015–16

Tabled 22 November 2016

This presentation provides an overview of the Victorian Auditor-General's report *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2015–16*.

Overview

2



This report provides information about matters arising from our financial audit of the *2015–16 Annual Financial Report of the State of Victoria (AFR)*

**281**

Public sector entities



A clear audit opinion was issued on the 2015–16 financial statements.

The *Annual Financial Report (AFR)* contains the state's financial statements and is the key accountability document that measures the state's financial performance. In 2015-16, the financial results of 281 entities were combined to make up the AFR.

This report provides the results of our audit of the AFR.

This year we issued a clear audit opinion on the 2015–16 financial statements reported in the AFR, and a modified opinion for 2014–15 comparative information. A clear audit opinion means Parliament and the public can have confidence that the 2015–16 financial information is reliable and accurate. This is a significant change from the last two financial years where we qualified our opinion.

Key audit matters

3



East West Link project funding



Property, plant and equipment held by Department of Education & Training



Port of Melbourne lease

Our qualified opinion in 2014–15 was in part because the state did not recognise an expense and a liability to repay \$1.5 billion received from the Commonwealth for the East West Link project.

In 2015–16 the state worked with the Commonwealth to reallocate this funding to other Victorian infrastructure projects, and in August an agreement was reached for the state to retain this funding.

Although this matter has been resolved for the current year, our 2015–16 audit opinion reflects the prior-year qualification, because the state government has not updated its published results for 30 June 2015 in the 2015–16 AFR.

The second matter impacting the 2014–15 audit opinion was the level of evidence available to support \$16.8 billion worth of property, plant and equipment at the Department of Education & Training.

In 2015–16 the department took action to address our key concerns. This resulted in the department being able to provide evidence to support current year balances, and confirm that balances reported last year were materiality correct. The qualification was therefore completely removed from the audit opinion in 2015–16.

The other significant transaction we considered when forming our opinion on this year's AFR was the impact of the lease of the Port of Melbourne.

Port of Melbourne lease transaction

4



The Port of Melbourne.

Photo courtesy of TK Kurikawa / Shutterstock.com



On 19 September 2016 the successful consortium was announced. They paid \$9.7 billion to the state on 31 October for a 50-year lease of the port, a 15-year operating licence and the purchase of a company.

Although this transaction happened after the end of the financial year, it affected the value of assets held by the state at 30 June 2016. This resulted in an increase to the value of assets reported in the AFR by \$5.5 billion when compared to the prior year.

We will continue to review the treatment of this transaction as part of our 2016–17 audit.

Financial measures and outcomes

5



Net operating surplus



Net debt as a percentage of gross state product (GSP)



Fully fund superannuation liability by 2035.

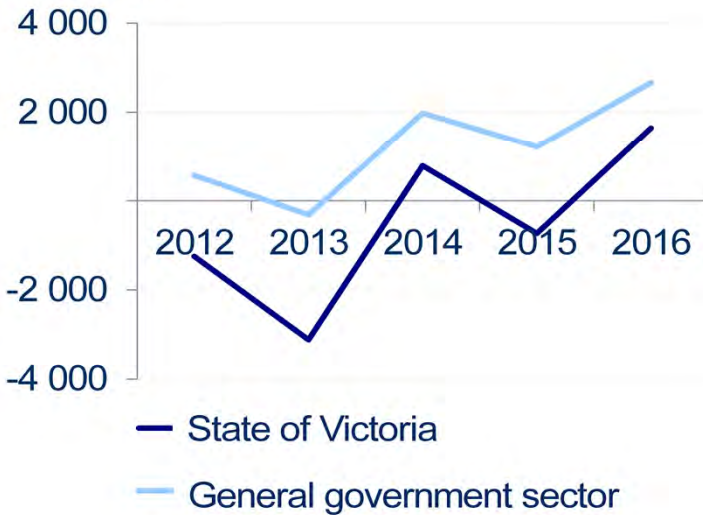
We have assessed the state's financial sustainability against three key measures:

- the result from transactions
- net debt as a percentage of gross state product
- And, a target to fully fund its superannuation liability by 2035.

Financial sustainability – Net operating surplus

Result from transactions

\$ million



\$1.6 billion surplus at 30 June 2016

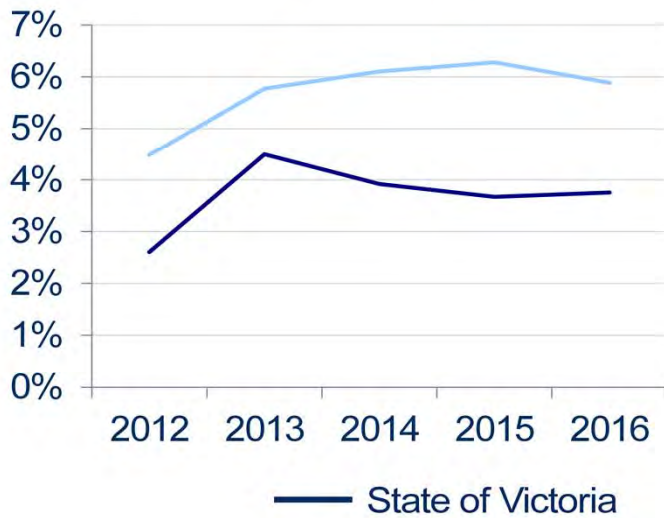
- Land transfer duties
- Payroll tax
- GST
- Legal case settlement - Tatts

In 2015–16, the state generated a net operating surplus of \$1.6 billion, an improvement of \$2.4 billion compared to 2014-15. This improvement is primarily a result of an increase in land transfer duties and payroll taxation, additional Commonwealth government grants, and a one-off payment from the resolution of a legal case over gambling licence proceedings.

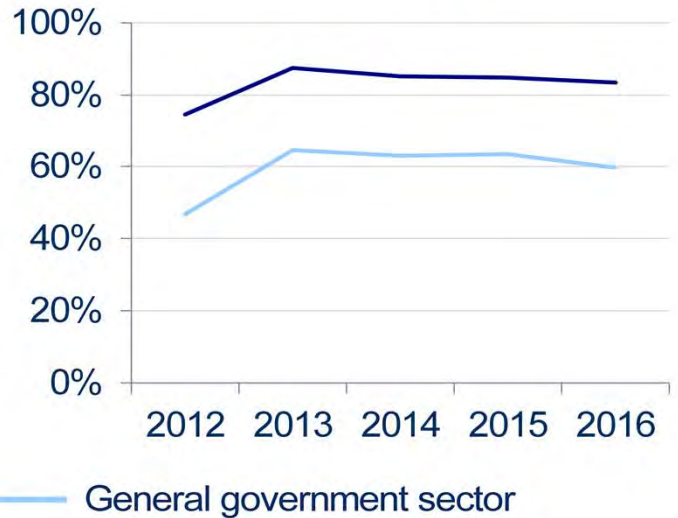
Despite the year-on-year variances in the result, over the past five years both the state and the general government sector have a positive trend for this measure.

Financial sustainability – Debt

Net debt as a percentage of GSP



Gross debt as a percentage of revenue



The government assesses how manageable the state's debt is by comparing net debt to the state's economy, indicated by gross state product. This is illustrated in the graph on the left. Over the past 4 financial years the rate of growth in net debt for the state has been stable or below economic growth.

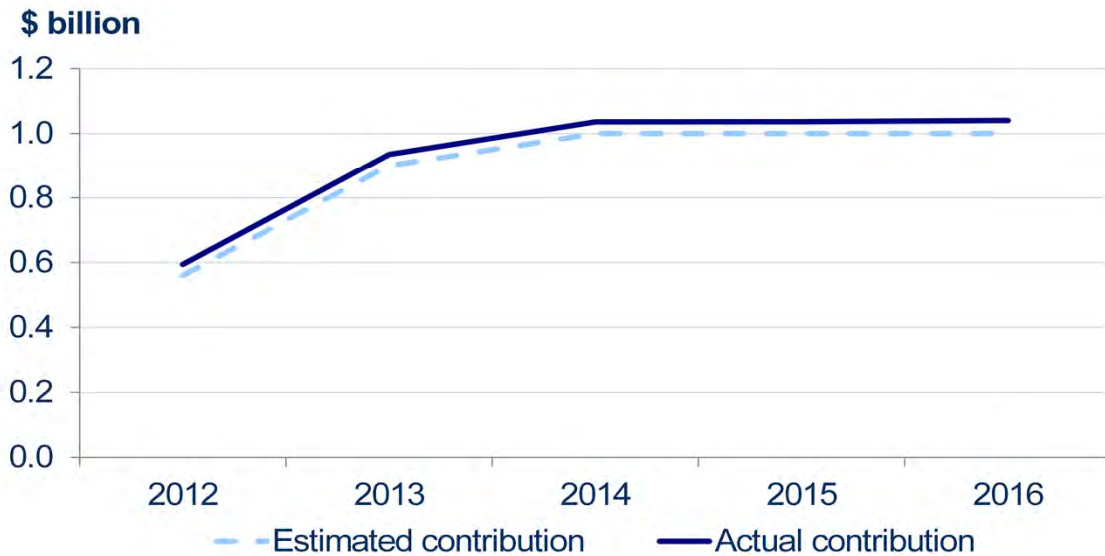
We also compared gross debt to public sector revenue which is informative if the growth in state revenue differs from economic growth. Over the past 4 financial years gross debt for the state has grown at a slower rate than revenue, as illustrated in the graph on the right.

The downward trend in both measures indicates the state is well positioned to service its debt as it becomes payable.

Financial sustainability – Superannuation

8

Payments by the State of Victoria to reduce the superannuation liability



As at 30 June 2016, the state owed \$29.4 billion to four defined benefit superannuation funds. This represents the gap between the estimated future amounts the funds will be required to pay to their members, and the current value of the assets held by the funds to meet these payments. The state government has a target to reduce its obligation to zero by 2035.

Every year, independent actuaries provide the state with a plan detailing the payments that need to be made each financial year to reduce the liability to zero by 2035. This graph indicates that over the past five financial years, the state government has been meeting the required payments.

Overall message

9



The state is well positioned financially and has been operating sustainably.

Overall we consider the state to be well positioned financially and to have been operating sustainably.

For further information, please view the full report on
our website: www.audit.vic.gov.au

For further information, please see the full report of this audit on our website, www.audit.vic.gov.au.