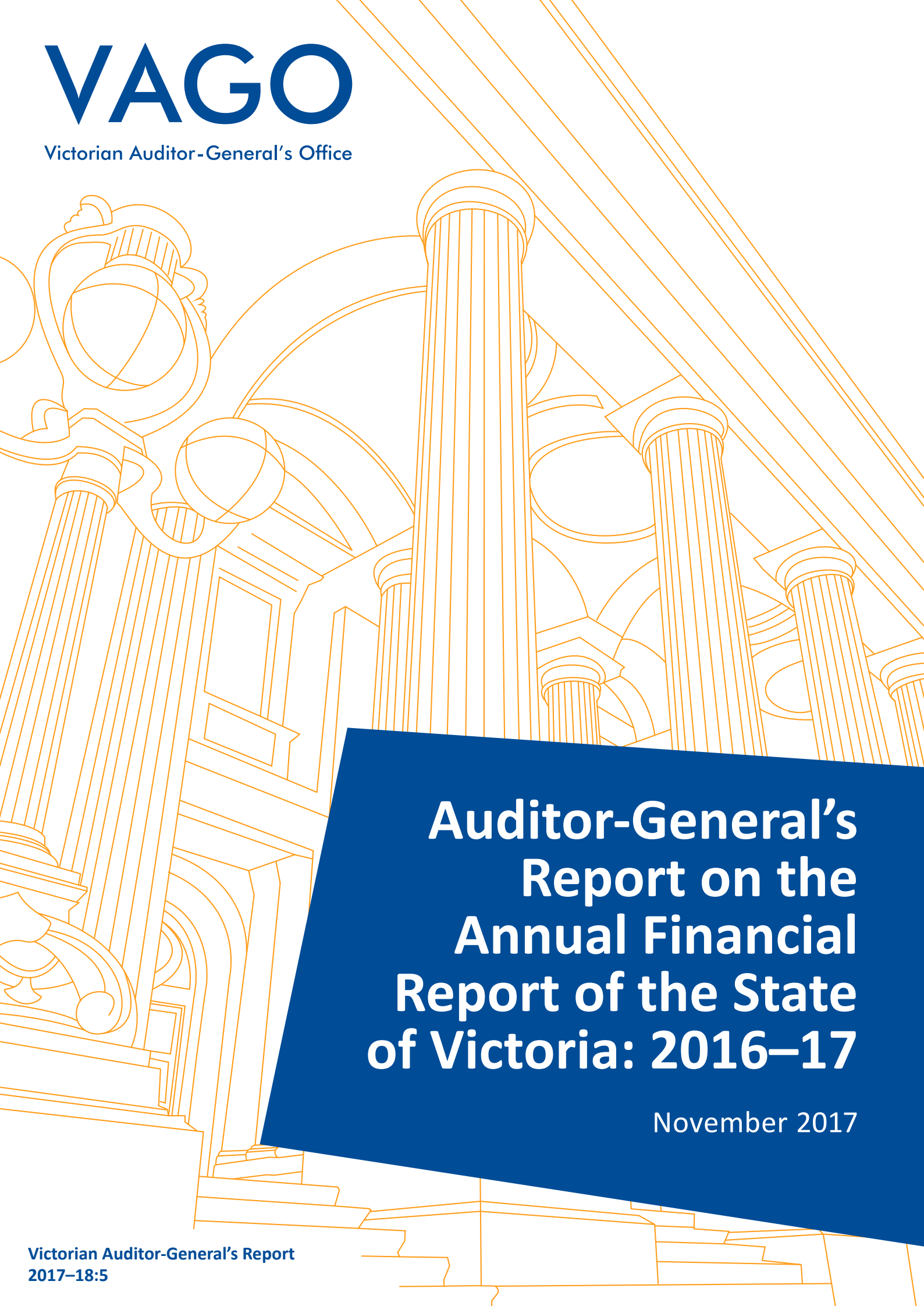


VAGO

Victorian Auditor-General's Office



Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2016–17

November 2017



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Victorian Auditor-General's Office

The Hon Bruce Atkinson MLC
President
Legislative Council
Parliament House
Melbourne

The Hon Colin Brooks MP
Speaker
Legislative Assembly
Parliament House
Melbourne

Dear Presiding Officers

Under the provisions of section 16AB of the *Audit Act 1994*, I transmit my report
Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2016-17.

Yours faithfully



Andrew Greaves
Auditor-General

15 November 2017

Contents

Overview	7
Conclusion.....	7
Findings.....	7
Submissions and comments received.....	9
1 Audit context	11
1.1 Entities included in the AFR	11
1.2 Entities excluded from the AFR	12
1.3 Results of the State of Victoria.....	13
1.4 Our audit	13
1.5 Report structure	13
2 Results of audit.....	15
2.1 Key audit matters for 2016–17.....	15
2.2 Quality of reporting in 2016–17.....	16
3 Internal controls	21
3.1 Overall findings.....	21
3.2 Internal control deficiencies.....	22
4 Financial sustainability	29
4.1 Financial measures and outcomes	30
4.2 Conclusion	30
4.3 Operating sustainability	30
4.4 Debt sustainability.....	37
Appendix A. <i>Audit Act 1994</i> section 16—submissions and comments	43
Appendix B. Audit opinions.....	49
Appendix C. AFR audit opinion.....	65
Appendix D. Management letter risk ratings	69
Appendix E. Glossary.....	71

Acronyms

AFR	Annual Financial Report of the State of Victoria
DEDJTR	Department of Economic Development, Jobs, Transport and Resources
DELWP	Department of Environment, Land, Water and Planning
DET	Department of Education and Training
DHHS	Department of Health and Human Services
DJR	Department of Justice and Regulation
DPC	Department of Premier and Cabinet
DTF	Department of Treasury and Finance
FTE	Full-time-equivalent
GSP	Gross state product
GGs	General government sector
IT	Information technology
KAM	Key audit matter
PFC	Public financial corporation
PNFC	Public non-financial corporation
VAGO	Victorian Auditor-General's Office

Overview

The Treasurer tabled the 2016–17 Annual Financial Report of the State of Victoria (AFR) in Parliament on 21 September 2017. The AFR includes the financial statements of the State of Victoria (the State) and the general government sector (GGS).

This report provides Parliament with information about matters arising from our financial audit of the 2016–17 AFR. It also provides our assessment of the financial sustainability of the State at 30 June 2017.

Conclusion

We issued a clear audit opinion on the AFR for the financial year ended 30 June 2017.

The State continues to operate sustainably and is well positioned financially.

Findings

Audit opinions

This year we provided clear audit opinions on the financial statements of the 47 significant state-controlled entities included in the AFR, and consequently on the AFR.

The Department of Treasury and Finance (DTF) produced a timely, accurate and relevant AFR, and tabled it in Parliament significantly earlier than in 2016 and within the statutory time frame.

Internal controls

We assessed the internal controls implemented by DTF as adequate to support the preparation of a complete and accurate AFR.

We also judged that the overall internal control frameworks at the 47 significant state-controlled entities were adequate to support their preparation of complete and accurate financial reports. However, some agencies need to strengthen some important internal controls.

Financial sustainability

We assessed the State's financial sustainability in the following key areas:

- operating result
- debt
- a target to fully fund its superannuation liability by 2035.

Operating result

The State generated a 'bottom line' operating surplus of \$6.6 billion in 2016–17, compared to a deficit of \$1.6 billion in 2015–16. The positive turnaround is a result of the strong performance of financial markets and a change in the economic assumptions that underpin the valuation of insurance claim provisions.

In terms of future operating financial risks, the State will need to continue to closely monitor growth in its employee costs, which account for one third of its total expenditure. Unlike discretionary grants, and much expenditure on supplies and services, staff costs tend to be effectively fixed over the short to medium term.

The State also needs to monitor and manage the backlog maintenance for its infrastructure assets, to guard against the risk that these assets will not reach their intended service levels and lives.

Debt

There was a net reduction in borrowings by the State of \$5.1 billion over the year, to \$48.8 billion at 30 June 2017. The proceeds from the Port of Melbourne lease were used to pay down much of this debt.

Government use of debt for major projects is an important source of finance, particularly in a low-interest-rate environment. Over the next four financial years, debt is estimated to increase by \$12.7 billion to fund capital projects and public services.

Since 2013, debt has grown at a slower rate than both gross state product (GSP) and operating income. This puts the State in a relatively better position to service its debt as it becomes payable. The State's balance sheet can accommodate higher levels of debt without significantly increasing operating financial risk.

Superannuation liability

As at 30 June 2017, the State owed \$24.9 billion to four superannuation funds. This represents the gap between the estimated future amounts the funds will be required to pay to their members, and the value of the assets held by the funds to meet these payments.

The state government has maintained its target to reduce its obligation to zero by 2035. Each year, actuaries provide the state government with a plan detailing the payments that need to be made each financial year to reduce the liability to zero by 2035. Over the past five financial years, the State has been meeting these payments.

Submissions and comments received

As required by section 16A of the *Audit Act 1994*, we gave a draft copy of the current report to the Treasurer of Victoria and asked for his submissions or comments.

As required by section 16(3) of the *Audit Act 1994*, we gave relevant extracts of the current report to named agencies and asked for their submissions or comments. We have considered their views when reaching our audit conclusions. We also provided a copy of the report to the Department of Premier and Cabinet.

The following is a summary of those responses. The full responses are included in Appendix A.

The Treasurer of Victoria was pleased that the report confirmed the clear opinion. He also highlighted the positive assessment of the State's finances and sustainability.

The Chief Executive of Eastern Health noted and accepted the internal control issues identified during the audit of Eastern Health, and confirmed a comprehensive action plan has been developed.

The Chief Executive Officer of the Country Fire Authority noted the reference to the Authority in the report and had no further comment.

1

Audit context

Each year, we audit the AFR. It measures the State's financial position at the end of the financial year, and how it performed during the year.

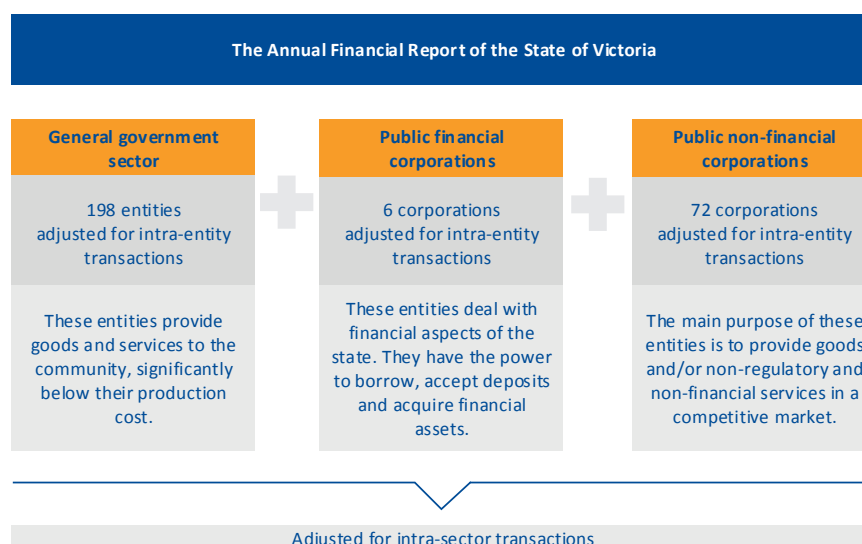
Section 16A of the *Audit Act 1994* requires that we report to Parliament on our audit. This report satisfies our obligation.

1.1 Entities included in the AFR

The AFR combines the financial results of 276 state-controlled entities. These are classified into three types:

- general government sector (GGS)
- public financial corporations (PFC)
- public non-financial corporations (PNFC).

Figure 1A
Categories of state-controlled entities



Source: VAGO.

We audit, and provide an opinion on, the financial statements of the 276 state-controlled entities each year. Appendix B details the date and type of financial audit opinion we issued.

Significant state-controlled entities

The financial results of 47 state-controlled entities, listed in Appendix B, were significant to the financial performance and position of the State in 2016–17. Collectively, these entities accounted for more than 90 per cent of the State’s assets, liabilities, revenue and expenditure.

We focused our audit attention on the financial transactions and balances of these 47 entities when forming our opinion on the AFR.

1.2 Entities excluded from the AFR

The AFR reports only on state-controlled entities. Other entities that provide public services are excluded because the State does not control them for financial reporting purposes—see Figure 1B.

Figure 1B
Sectors not included in the AFR

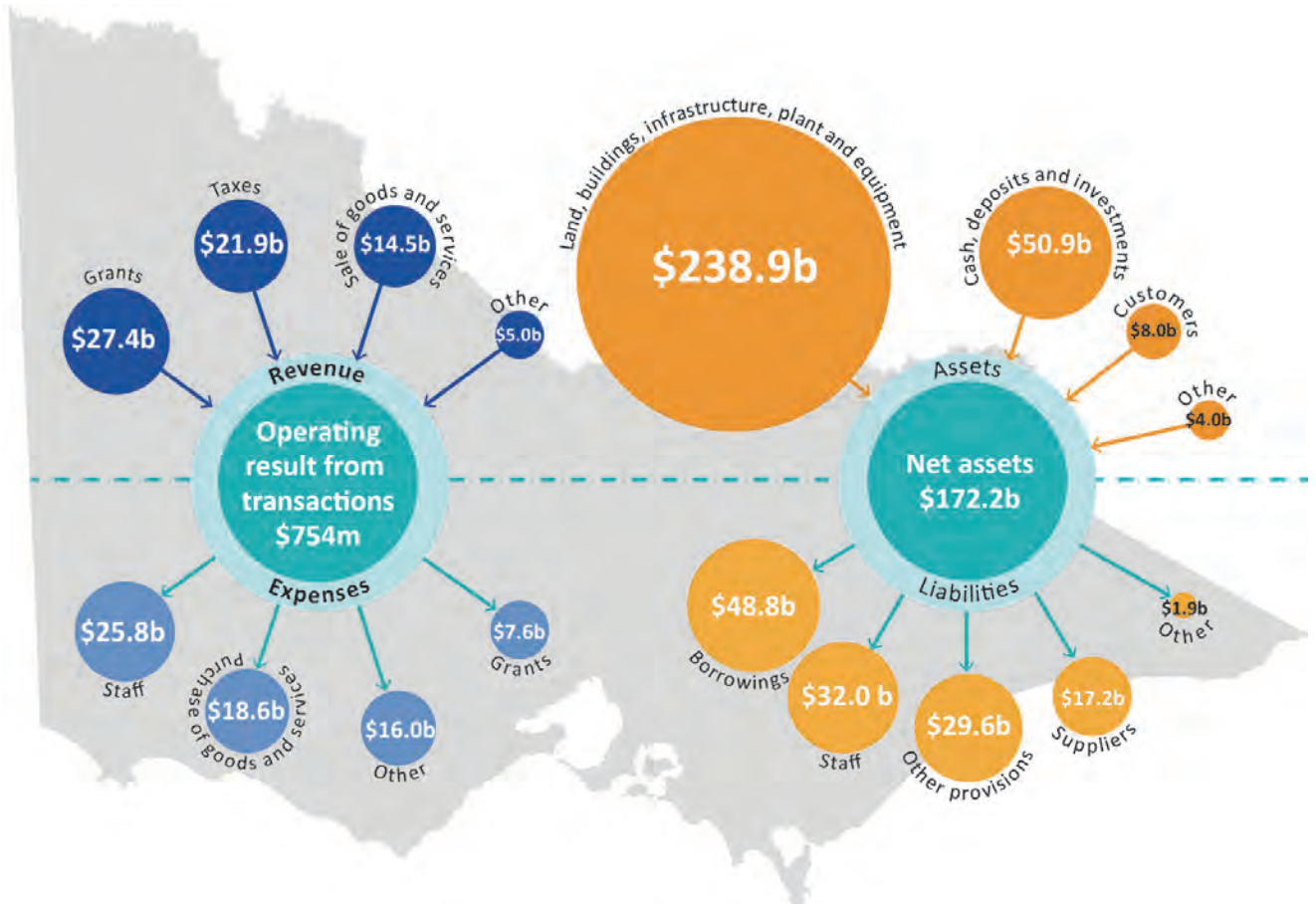
Sector	Reason for exclusion from the AFR
Local government	Local government is a separate tier of government, with councils elected by and accountable to their ratepayers.
Universities	The Commonwealth is the main funder of universities, and the State directly appoints only a minority of university council members.
Denominational hospitals	Denominational hospitals are private providers of public health services and have their own governance arrangements.
State superannuation funds	The net assets of state superannuation funds are the property of the members. However, any shortfall in the net assets related to certain defined benefit scheme entitlements is an obligation of the State and is reported as a liability in the AFR.

Source: VAGO.

1.3 Results of the State of Victoria

In 2016–17, the State generated \$68.8 billion of revenue and outlaid \$68.1 billion in costs. At 30 June 2017, it controlled assets worth \$301.8 billion and owed suppliers and employees \$129.6 billion. Figure 1C shows the type and value of state revenue, expenses, assets and liabilities in 2016–17.

Figure 1C
Revenue, expenses, assets and liabilities of the State, 2016–17



Source: VAGO.

1.4 Our audit

We apply Australian Auditing Standards to our audit of the AFR and provide an audit opinion on it in accordance with Section 9A of the *Audit Act 1994*. The Department of Treasury and Finance pays for the audit.

The cost of preparing this report was \$165 000, which is funded by Parliament.

1.5 Report structure

Figure 1D outlines the structure and contents of this report.

Figure 1D
Report structure

Part	Description
Part 2—Results of audit	Discusses the financial audit opinion issued on the 2016–17 AFR, and the key matters arising from the audit.
Part 3—Internal controls	Summarises the internal control issues observed during our audits of significant state-controlled entities.
Part 4—Financial sustainability	Provides an analysis of the GGS and the State’s financial outcomes, and assesses the 2016–17 financial outcomes of the GGS against targets included in the 2016–17 State Budget.

Source: VAGO.

2

Results of audit

This year we provided clear audit opinions on the financial statements of the 47 significant state-controlled entities included in the AFR, and consequently on the AFR.

A clear audit opinion adds credibility to the financial statements by providing reasonable assurance that reported information is reliable, accurate and in keeping with the requirements of relevant accounting standards and applicable legislation.

2.1 Key audit matters for 2016–17

A new auditing standard applicable this financial year requires the auditors of listed entities to include a description of key audit matters (KAM) in the auditor's report. KAMs are matters that the auditor determines to be of most significance to the audit.

We have voluntarily adopted the new standard as we believe this will enhance the value of our auditor's report by providing greater transparency and insights about our audit process.

The two KAMs for the 2016–17 AFR were the fair value of the State's defined benefit superannuation and outstanding insurance claims liabilities. Appendix C includes a copy of the 2016–17 auditor's report, which includes the reason why we considered these items KAMs, and our audit responses to each.

2.2 Quality of reporting in 2016–17

Despite the low number of significant state-controlled entities meeting the AFR milestone for finalising their financial statements, DTF was able to produce a timely, accurate and relevant AFR.

Timeliness

The timeliness of the AFR is measured against the statutory reporting deadline established in the *Financial Management Act 1994*, and against the annual production timetable set by DTF.

DTF provided the 2016–17 AFR to Parliament on 21 September 2017. This is before the statutory reporting deadline of 15 October 2017, and consistent with the annual production timetable. The Treasurer requested this year that the AFR be tabled while Parliament was sitting which meant it was tabled 22 days earlier than the 2015–16 AFR.

The earlier time frame was achievable because we—and entity management—did not have to contend with:

- significant and complex transactions similar to those experienced in the past, such as the valuation of assets at the Port of Melbourne or accounting for fixed assets at the Department of Education and Training
- significant machinery-of-government changes—for example, the creation or merging of government agencies
- significant changes in accounting standards.

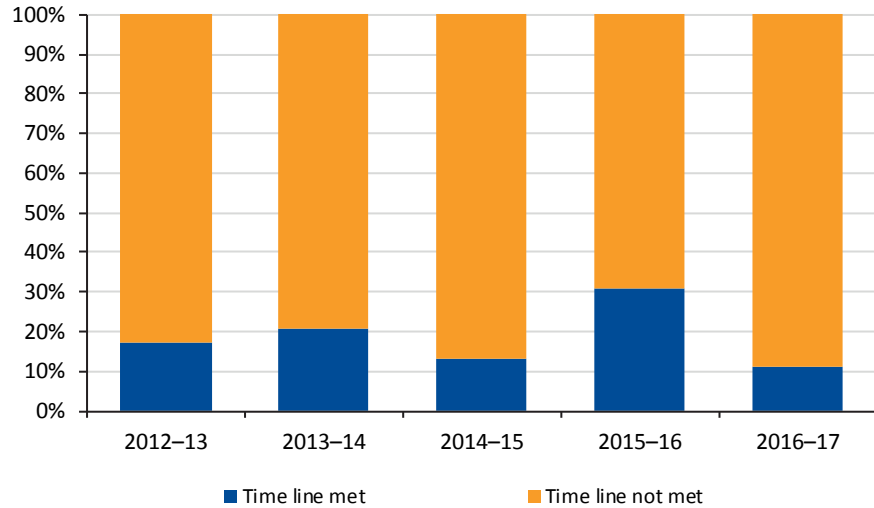
It would have been difficult to manage the compressed time frame if we had encountered any of these matters.

Timeliness of significant entities

The timely preparation and audit of the AFR depends on the 47 significant state-controlled entities meeting key milestones in the AFR preparation timetable, and the early identification and resolution of significant accounting issues.

DTF set a milestone of 18 August 2017 for all significant state-controlled entities to finalise their financial statements, including an audit opinion. This date was set to allow enough time for the preparation and audit of the AFR. Figure 2A shows the performance of relevant entities against the DTF milestone over the past five financial years.

Figure 2A
Timeliness of significant state-controlled entities against the DTF milestone

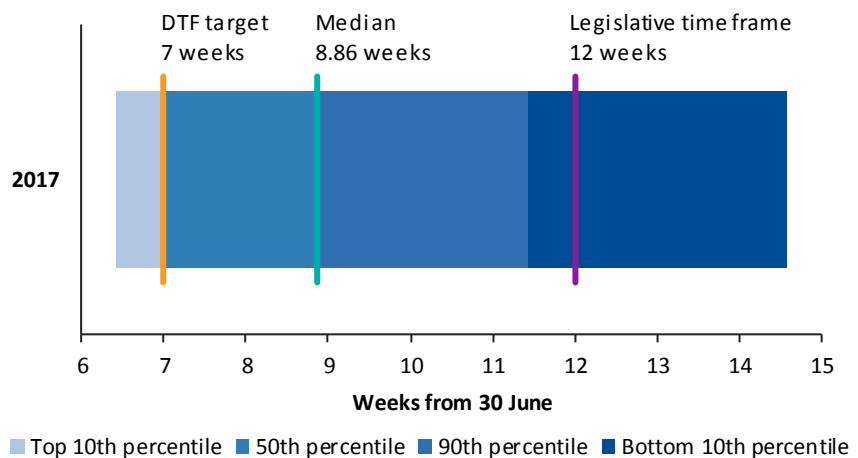


Source: VAGO.

Only five of the 47 significant state-controlled entities met the milestone in 2016-17, which is the lowest number over the last five financial years. Despite this fact, the AFR was signed earlier than in 2016. This would suggest that the milestone date could be revised without compromising the AFR reporting date.

In total, 43 entities fulfilled their statutory obligation to finalise their financial statements within 12 weeks of 30 June. Figure 2B shows when significant state-controlled entities finalised their financial statements against the DTF milestone and statutory reporting obligation.

Figure 2B
Timeliness of significant state-controlled entities against the DTF milestone and legislative time frame



Source: VAGO.

Figure 2C outlines the reasons why the four entities did not meet the 12-week statutory obligation for completion of their financial statements.

Figure 2C
Reasons why significant state-controlled entities did not meet their statutory reporting obligation

Entity	Reason for late completion of financial statements
Public Transport Development Authority	Delays in the provision of financial statements for audit, and errors in the financial statements and supporting schedules that required correction by the client.
Country Fire Authority	We required additional time to consider the impact the Firefighters' Presumptive Rights Compensation and Fire Services Legislation Amendment (Reform) Bill 2017 had on the financial statements. An Emphasis of Matter section was included in our audit report.
Court Services Victoria	The Courts Council, which is the governing body, questioned whether AASB 124 <i>Related Party Disclosures</i> applied to Court Services Victoria. This matter remains unresolved, and Court Services Victoria will need to finalise its position on related party disclosures in 2017–18. We undertook additional audit procedures to confirm no related party transactions existed that needed to be disclosed.
Victorian Commission for Gambling and Liquor Regulation	The Commission approved the financial statements at a meeting on 28 September 2017. The meeting date was set based on the availability of draft financial statements and the timing of our year-end audit visits.

Source: VAGO.

Reliability

The frequency and number of material adjustments arising from the audit is a measure of the accuracy of the draft AFR. Ideally, no material adjustments should be required once the draft AFR is submitted for audit.

To prepare the 2016–17 AFR, DTF planned to provide three drafts of the financial statements for audit, the first on 29 August 2017. DTF achieved these targets.

One material adjustment was required to the first draft provided for audit, indicating that the quality control procedures adopted by DTF were for the most part adequate. The adjustment was required to reclassify \$1.3 billion of short-term deposits from investments, loans and placements to cash and deposits.

Usefulness

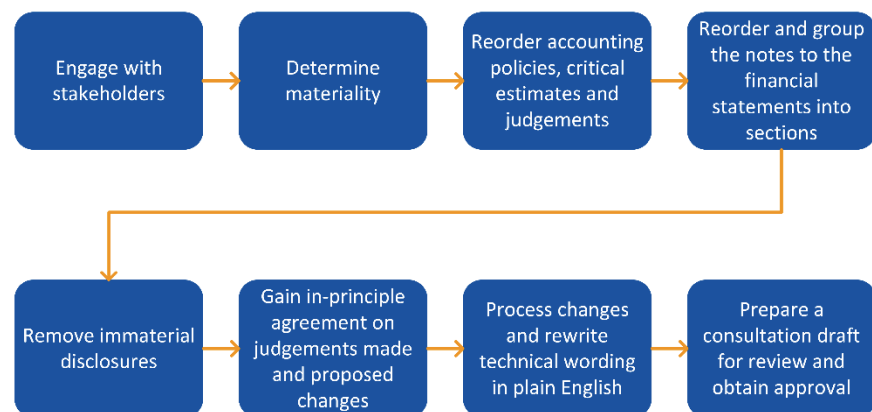
The 2015–16 and 2016–17 AFRs were prepared in a streamlined format to make them easier to understand. The objectives of streamlined financial reporting are to:

- maintain compliance with the Australian Accounting Standards and relevant legislation
- present only relevant information by removing disclosures that are immaterial in the context of the financial statements taken as a whole
- organise and communicate financial information in a manner that aligns with the objectives, service delivery, financial performance and financial position of the reporting entity
- enhance the readability and user-friendliness of the financial report.

Government departments were required to report under the streamlined format for the first time in 2016–17, and all other agencies were encouraged by the Minister for Finance to do so. It is pleasing that 39 of the 47 significant state-controlled entities included in the AFR adopted the streamlined format.

We commend DTF for providing entities with a systematic eight-step process for streamlining their financial reports in the 2016–17 Model Financial Report. This process is outlined in Figure 2D.

Figure 2D
Process for streamlining financial reporting



Source: VAGO, based on DTF’s eight-step process.

In 2016–17, DTF reviewed the content of the 2015–16 streamlined AFR against the requirements of relevant Australian Accounting Standards, and removed disclosures that it believed were not relevant to users of the report.

We encourage all entities to undertake a similar exercise when preparing their financial statements and remove disclosures that are immaterial.

3

Internal controls

Effective internal controls help entities reliably and cost-effectively meet their objectives. They are also a prerequisite for delivering sound, accurate and timely external financial reports.

In our annual financial audits, we consider the internal controls relevant to financial reporting and assess whether entities have managed the risk that their financial reports will not be complete and accurate. Poor internal controls make it more difficult for the management of entities to comply with relevant legislation, and increase the risk of fraud and error.

As part of our audit of the AFR, we assess how the internal control deficiencies we identified at the significant state-controlled entities may impact DTF's ability to prepare a complete and accurate AFR.

3.1 Overall findings

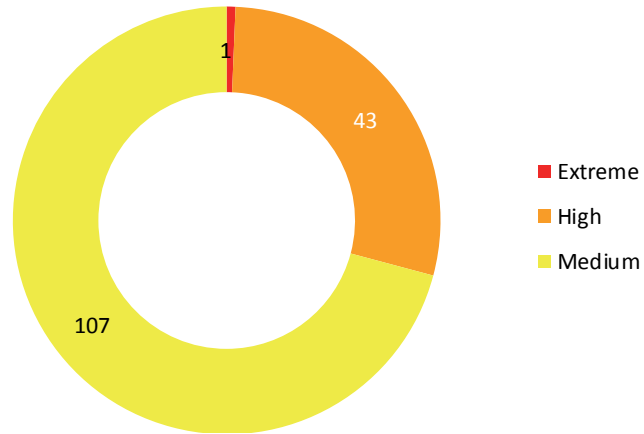
We assessed as adequate the internal controls implemented by DTF to support the preparation of a complete and accurate AFR.

Overall, we judged that the internal control frameworks at the 47 significant state-controlled entities were adequate to support them preparing complete and accurate financial reports. However, some agencies need to strengthen some important internal controls.

In 2016–17, we identified 151 internal control deficiencies at the 47 significant state-controlled entities. We reported these to each entity as required by auditing standards.

Figure 3A shows the number of extreme-, high- and medium-rated internal control deficiencies we identified. We exclude low-rated internal control deficiencies because they are minor or present opportunities to improve existing processes or internal controls. See Appendix D for definitions of the risk ratings.

Figure 3A
Internal control deficiencies by risk rating



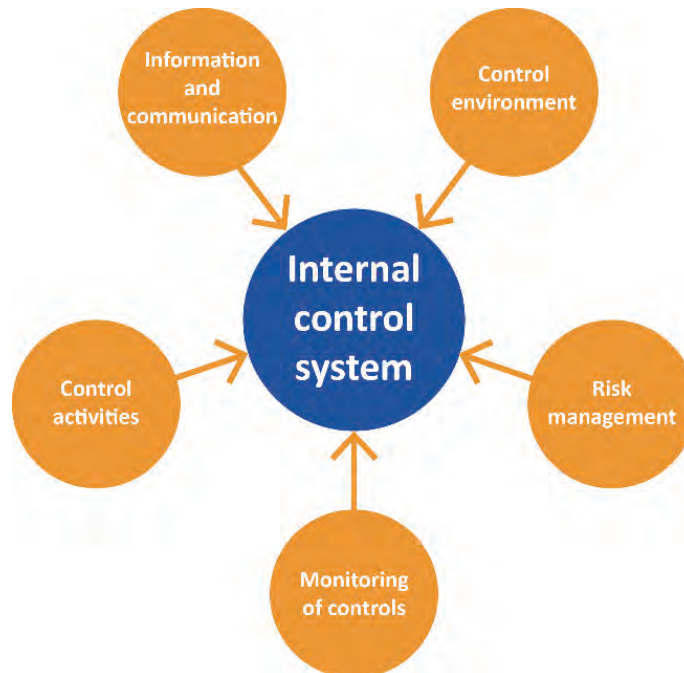
Note: These results include 21 control deficiencies at water entities and 61 control deficiencies at hospitals that are also reported in VAGO’s 2016–17 sector reports.

Source: VAGO.

3.2 Internal control deficiencies

The *Standing Directions of the Minister for Finance 2016* require the accountable officer of each entity to establish an effective internal control system in relation to financial management, performance and sustainability. The internal control system must include the elements shown in Figure 3B.

Figure 3B
Elements of an internal control system



Source: VAGO.

Control environment

Key elements

Integrity and ethical values
Governance
Organisational structure and reporting lines
Qualifications and competence of people
Accountability

The control environment is the attitudes, awareness and actions of management. It is the ‘tone at the top’.

As part of a financial audit, we evaluate whether:

- management has created and maintained a culture of honesty and ethical behaviour
- the control environment provides an appropriate foundation for the other components of internal control.

We did not identify any serious deficiencies relating to those elements of the control environment that we examined in our audits of the 47 significant state-controlled entities.

Risk assessment

Key elements

Strategic risk assessment
Operational risk assessment
Financial risk assessment

Risk assessment relates to management’s processes for identifying, analysing, mitigating and controlling risks that may prevent an entity from achieving its objectives.

As part of a financial audit, we examine whether management has a process for:

- identifying business risks relevant to financial reporting objectives
- estimating the significance of the risks
- assessing the likelihood of risks occurring
- deciding on actions to address those risks.

We identified one medium-rated risk-assessment deficiency related to cash management in one of the 47 significant state-controlled entities.

Control activities

Key elements

Policies and procedures
Security
Change management
Business continuity
Outsourcing

Control activities are the policies, procedures and practices implemented by management to help meet an entity’s objectives. These activities operate at all levels and in all functions, can be manual or automated, and, if operating effectively, can prevent or detect errors in financial information.

As part of a financial audit, we analyse the control activities that support the preparation of accurate financial statements. In 2016–17, we identified 124 control deficiencies.

We separate control activities into manual and information technology (IT) control activities.

Manual control activities

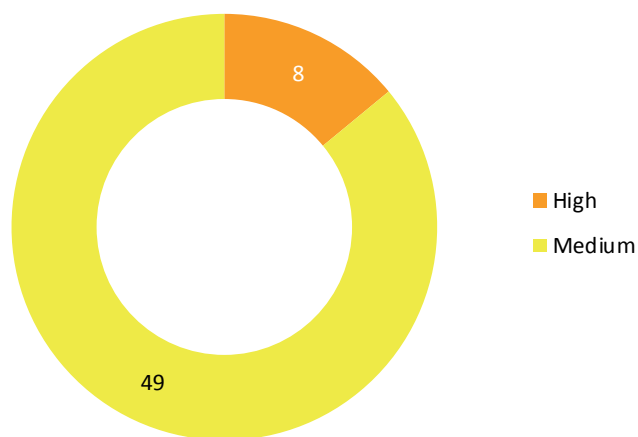
Employees manually perform these control activities to assess the reasonableness and appropriateness of transactions—for example, by manually validating, calculating or reviewing something. These controls may be less reliable than IT controls because they are susceptible to human error and can be more easily bypassed or overridden.

Twenty-one significant state-controlled entities had control deficiencies in this area, which primarily related to:

- **payroll**—lack of segregation of duties, employee master files not being kept up to date, and staff not using system-generated exception reports
- **assets**—incomplete asset registers and incorrect capitalisation of costs
- **expenses**—non-use of purchase orders, breaching delegations and vendor master file changes not approved.

Figure 3C summarises the deficiencies we identified in manual control activities. There were eight high-rated deficiencies in total, concerning payroll areas at the Royal Children’s Hospital (6 deficiencies), Eastern Health (1) and the Public Transport Development Authority (1).

Figure 3C
Manual control activities



Source: VAGO.

IT control activities

IT control activities support the operating capability of an IT system. Strong IT controls are a prerequisite for the smooth day-to-day operations of agencies and the reliability of financial information. They reduce the risk that employees or third parties can circumvent processes and the risk of unauthorised access to systems, which may result in the destruction of data or recording of non-existent transactions. They also decrease the risk of a successful cyber-attack—a deliberate act by a third party to gain unauthorised access to an entity’s data with the objective of damaging, denying, manipulating or stealing information.

To reduce the risk of a successful cyber-attack, it is imperative that entities address IT control deficiencies in a timely manner.

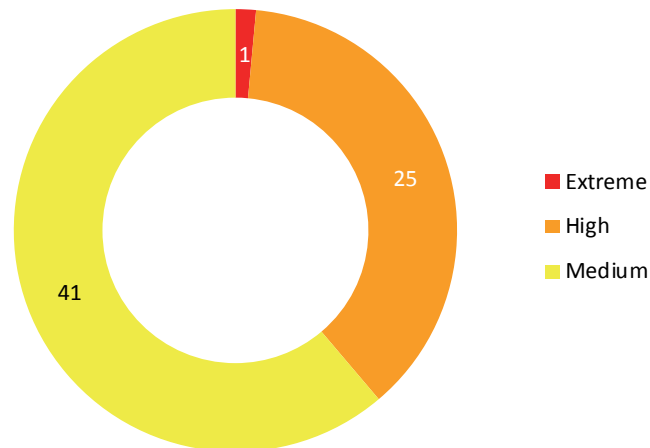
Twenty-three significant state-controlled entities had IT control deficiencies, which primarily related to:

- **user access management**—inappropriate privileged access and a lack of periodic review of users and their system access requirements
- **system software**—inappropriately configured software and system updates and patches not applied in a timely manner
- **software support**—some system software is, or will be, unsupported by the vendor
- **disaster recovery plans**—plans not updated or tested in a timely manner.

There was one extreme-rated IT control deficiency identified at Eastern Health, concerning a potentially compromised system. This was investigated by management and found to be a known ‘false positive’ result that exists within the anti-malware software used.

There were 25 high-rated IT control deficiencies, as shown in Figure 3D. These were identified at Eastern Health (9 deficiencies), Barwon Health (4), Melbourne Water Corporation (3), the Department of Health and Human Services (3), the Melbourne Metropolitan Fire and Emergency Services Board (2), Monash Health (2), the Department of Economic Development, Jobs, Transport and Resources (1) and Yarra Valley Water Corporation (1).

Figure 3D
IT control activities



Source: VAGO.

Outsourced IT systems

A number of significant state-controlled entities use outsourced service providers to process transactions on their behalf, or to house and run their IT systems.

Management of significant state-controlled entities is responsible for ensuring that effective controls operate at the service providers, and that entity management remains accountable for the quality of the information stored in its systems. To assist in discharging these responsibilities, management generally engages an independent auditor to review, test and report on the design and operating effectiveness of IT controls.

Control deficiencies identified at service organisations in 2016–17 were similar to those listed above—that is, user access management and system software updates. Management should work with service providers to ensure they resolve identified control deficiencies in a timely manner.

Monitoring of controls

Key elements

Management supervision
Self-assessment
Internal audit

Monitoring activities are the methods that management uses to observe internal controls in practice and assess their effectiveness. This may be through ongoing supervision, periodic self-assessments or separate evaluations.

As part of a financial audit, we gain an understanding of the major activities management uses to monitor the internal controls that are relevant to financial reporting, and how management initiates remedial actions to address deficiencies.

Three significant state-controlled entities had medium-rated control deficiencies in this area, related to how management monitors and manages excessive leave balances.

Information and communication

Key elements

Systems
Quality of information
Effectiveness of communication

Information and communication involve providing information in a form and time frame that allows staff to effectively and efficiently discharge their responsibilities and effectively transmit control tasks throughout the entity.

This aspect of internal control also considers how management generates financial reports, and how it communicates them to internal and external parties.

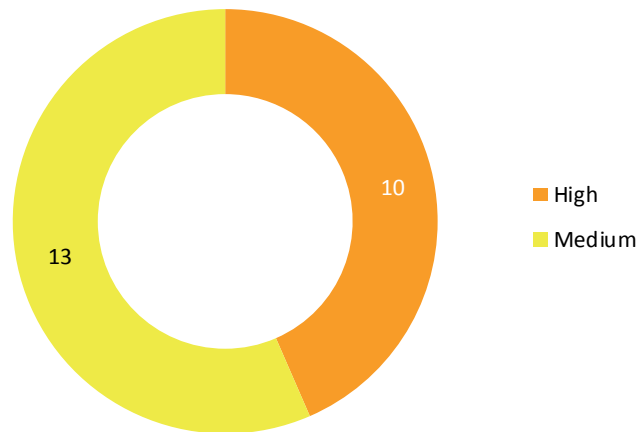
As part of a financial audit, we examine the information systems and related business processes relevant to financial reporting, as well as how management communicates financial reporting roles and responsibilities and other significant matters to interested parties.

Sixteen significant state-controlled entities had control deficiencies in information and communication, primarily related to:

- processes for capturing and reporting related-party information
- quality assurance processes concerning financial statement preparation
- accounting for fixed assets
- noncompliance with Australian Accounting Standards, the *Financial Management Act 1994* or guidance from DTF.

As shown in Figure 3E, there were 10 high-rated deficiencies in this area. These were identified at the Department of Premier and Cabinet (3 deficiencies), Court Services Victoria (2), the Public Transport Development Authority (1), Goulburn-Murray Rural Water Corporation (1), Grampians Wimmera Mallee Water Corporation (1), the Metropolitan Fire and Emergency Services Board (1) and DTF (1).

Figure 3E
Information and Communication



Source: VAGO.

4

Financial sustainability

The AFR shows the financial performance and position of the State and the GGS.

Separately reporting on the GGS allows the government to demonstrate its results against its published budget. The 2016–17 State Budget sets out the government’s sustainability objectives for the GGS, which are supported by three key financial measures.

In this part, we review the State against these three key financial measures and other relevant ones. We also discuss key transactions during the year that influenced the results, and review the GGS against the 2016–17 State Budget.

4.1 Financial measures and outcomes

Figure 4A details the three key financial measures, and the government's assessment of the GGS outcome for 2016–17.

Figure 4A
Financial measures, targets and outcomes of GGS for 2016–17

Measure	Target	DTF reported result
Operating surplus ^(a)	A net operating surplus consistent with maintaining general government net debt at a sustainable level over the medium term.	A net operating surplus of \$2.7 billion for 2016–17.
Net debt ^(b)	General government net debt as a percentage of GSP to be maintained at a sustainable level over the medium term.	Net debt to GSP of 4.0 per cent at 30 June 2017.
Superannuation	Fully fund the unfunded superannuation liability by 2035.	The government is on track to fully fund the unfunded superannuation liability by 2035, with an additional contribution of \$1.0 billion to the State Superannuation Fund in 2016–17.

(a) This indicator relates to the net result from transactions.

(b) Net debt measures the sum of deposits held, advances received, government securities, loans and other borrowings, less the sum of cash and deposits, advances paid and investments, loans and placements.

Source: DTF.

4.2 Conclusion

The State continues to operate sustainably and is well positioned financially.

4.3 Operating sustainability

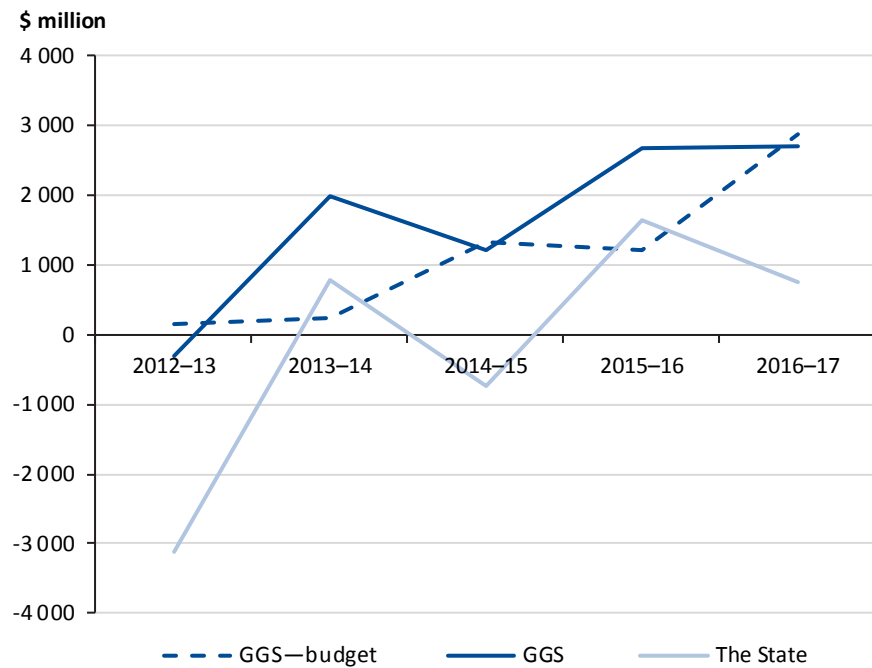
Measures of operating sustainability indicate the State's ability to generate sufficient surpluses to fund its day-to-day operations. The three measures that we used are the 'bottom line' operating surplus, the net result from transactions and the net operating result ratio.

The State generated a 'bottom line' operating surplus of \$6.6 billion in 2016–17, compared to a deficit of \$1.6 billion in 2015–16. The turnaround is due to the strong performance of financial markets and a change in the economic assumptions underpinning the valuation of insurance claim provisions.

Another key measure of operating sustainability is the State's net result from transactions—the part of the 'bottom line' operating surplus related to government policy decisions and the operations of the government. It excludes changes in the value of assets and liabilities that result from market remeasurements—such as financial investments and non-financial fixed assets.

Figure 4B shows the net result from transactions for the State and the GGS over the past five years. Sustainable revenue and expenditure policy necessitate that this result be in surplus over the medium to long term.

Figure 4B
Net results from transactions, 2012–13 to 2016–17

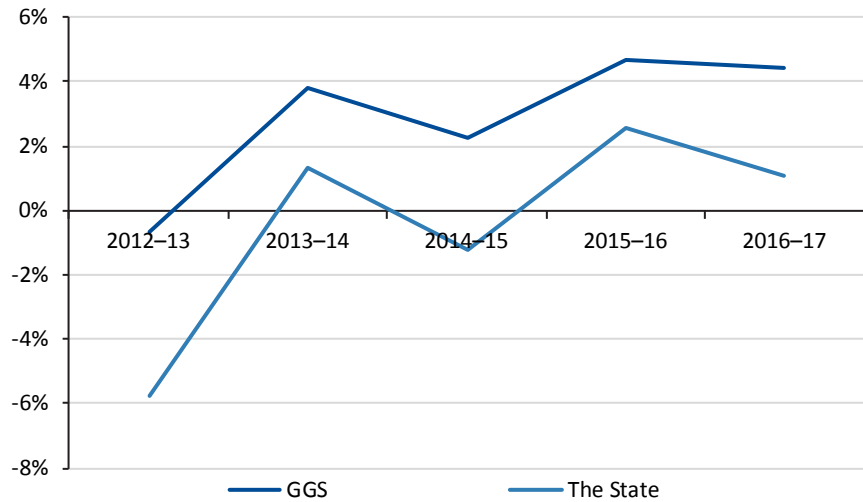


Note: In the published 2012–13 AFR, the reported GGS net result from transactions was a surplus of \$316.4 million. In 2013–14, the State applied the revised AASB 119 *Employee Benefits* for the first time, which changed the way defined benefit superannuation expenses were presented. The revised requirements were applied retrospectively, and the operating statement was restated accordingly. The restated 2012–13 net result from transactions is reflected in the chart above. The 2012–13 GGS budget figure was not restated.

Source: VAGO.

For balanced reporting, the absolute measure of net result from transactions is better considered in terms of its size relative to turnover—that is, as a proportion of revenue. This net operating result ratio shows how much of each dollar collected by the State translates into the net operating result. Figure 4C shows this net operating result ratio for the State and the GGS over the past five years.

Figure 4C
Net operating result ratio, 2012–13 to 2016–17



Source: VAGO.

While the GGS net result from transactions grew in absolute terms compared to last year, it declined marginally in relative terms. This was because, in 2016–17, state expenditure grew at a rate faster than its revenue.

Revenue

The State generates most of its revenue through Commonwealth government grants, taxes, and the sale of goods and services.

In 2016–17, revenue increased by \$4.1 billion (6.3 per cent) to \$68.8 billion. The increase is primarily due to:

- \$2.4 billion additional tax revenue resulting from the up-front payment of a 15-year Port of Melbourne licence, additional land tax and land transfer duties from a strong property market, and additional payroll tax due to wages and employment growth
- \$2.1 billion additional grant revenue from the Commonwealth due to an increase in the national GST pool, funding for the Student First program, Pharmaceutical Benefits Scheme, and Water Management Partnership Agreement, and 2017–18 grants for on-passing to local councils paid in advance.

Expenditure

Most of the State's spending is on government employee and general day-to-day running costs.

In 2016–17, expenditure increased by \$5.0 billion (7.9 per cent) to \$68.1 billion. The increase is primarily due to:

- \$2.0 billion additional grants, which includes additional grants to local councils and non-government schools, and amounts paid under the National Disability Insurance Scheme
- \$1.6 billion additional employee expenses mainly due to wage growth and additional employees in the education, health, transport and justice portfolios
- \$850 million of additional services purchased from the private sector.

Risks to operating sustainability

In 2016–17, taxation revenue and grants made up 71.6 per cent of all revenue collected by the State.

Movements in economic and demographic factors such as interest rates, household disposable income, consumption and population are out of the control of government to a large extent and affect taxation revenue. The State can only influence the type and value of some taxes imposed. The government estimates average growth in taxation revenue of 3.7 per cent over the next four financial years.

Grants mainly comprise contributions from the Commonwealth. The State has minimal influence over such contributions, and they are not certain over the longer term.

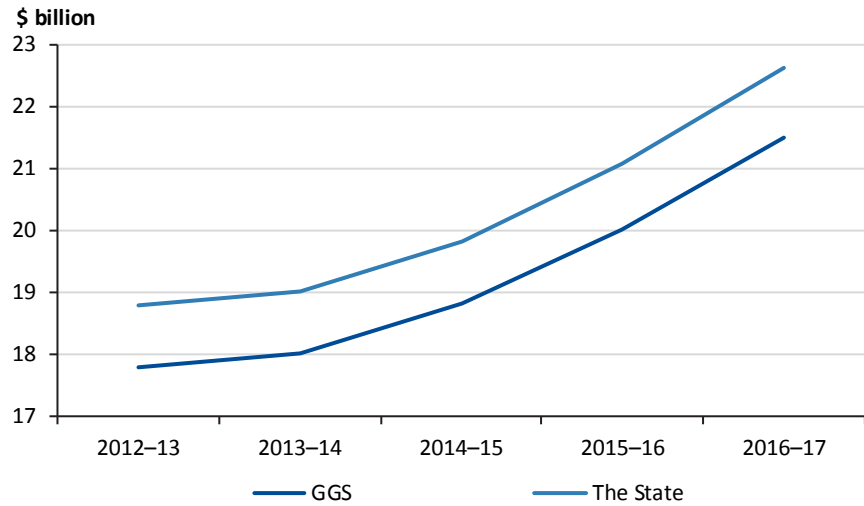
Due to these factors, the State needs to closely monitor and tightly control expenditure to maintain long-term operating sustainability.

Employee expenses

The government must ensure it has a sufficient and suitably qualified workforce to deliver services to Victorians. In 2016–17, the State paid \$22.6 billion to employees, which was 33.2 per cent of its total operating expenses for the year.

Figure 4D shows that employee expenses have increased by 20.3 per cent over the last five financial years. Over the same period, employee expenses as a percentage of total operating expenses have remained reasonably constant.

Figure 4D
Employee expenses, 2012–13 to 2016–17



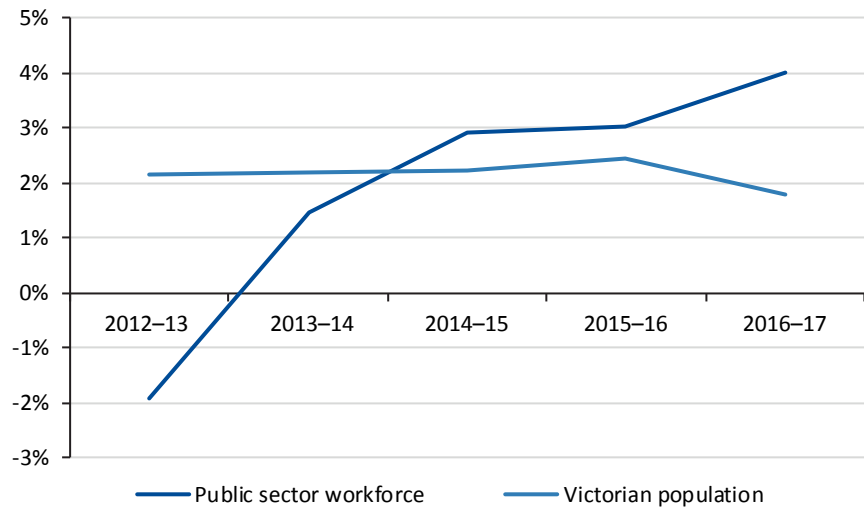
Source: VAGO.

The government has implemented a number of initiatives in the past to manage employee-related expenses—for example, in December 2011, the government of the day announced its Sustainable Government Initiative, which included a targeted reduction of 4 200 back-office staff.

At 30 June 2013, the public service workforce consisted of 213 557 full-time-equivalent (FTE) employees, which was 4 210 (1.9 per cent) lower than the prior year. Since then, there has been a steady increase in the number of FTE employees and, at 30 June 2017, there were 238 928. A number of initiatives in the education, health, transport and justice portfolios have contributed to the increase.

Figure 4E shows the rate of growth in the Victorian public sector FTE workforce compared to the Victorian population over the past five years.

Figure 4E
Rate of growth in Victorian public sector FTE workforce compared to Victorian population, 2012–13 to 2016–17

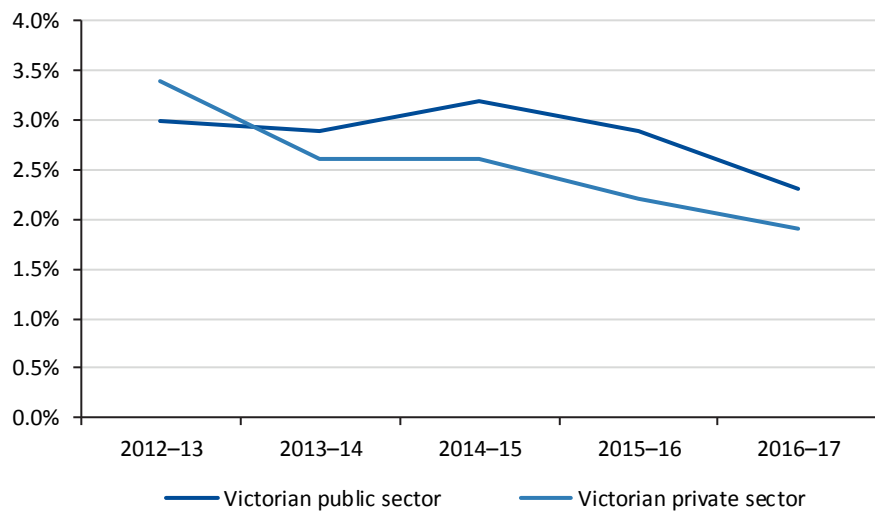


Note: 2016–17 Victorian population growth figures are to 31 March 2017.

Source: VAGO, based on public sector employment numbers from the Victorian Public Sector Commission and Victorian population numbers from the Australian Bureau of Statistics.

Over the last three financial years, the Victorian public sector FTE workforce has grown faster than the Victorian population. Figure 4F shows that, over the same period, Victorian public sector ordinary-time hourly wage and salary rates have increased each year at a rate higher than the Victorian private sector.

Figure 4F
Change in ordinary-time hourly wage and salary rates, 2012–13 to 2016–17



Source: Australian Bureau of Statistics wage price index for Victoria (all industries).

Changes in ordinary-time hourly wages and salary rates arise from award variations, enterprise and workplace agreements, minimum wage setting, individual contracts and other arrangements. This does not include penalty payments for overtime, weekends and public holidays, allowances that fluctuate, or bonus payments.

Maintenance expenses

In 2016–17, the State spent \$9.1 billion acquiring non-financial assets and, over the next four financial years, plans to spend a further \$37.7 billion, with major new programs for transport, justice, health and education. These programs will progressively increase the State’s asset base and, consequently, its future maintenance requirements.

As part of the Auditor-General’s mandate, we have the authority to report on efficiency and effectiveness. Through our performance audit program, we continually identify issues relating to maintenance backlogs, which indicate that not enough funding is allocated to maintaining the State’s existing assets.

Figure 4G shows the value of maintenance backlog we identified in 2016–17, and the assets which were impacted.

Figure 4G
Identified maintenance backlogs in VAGO performance audit reports, 2016–17

Asset category	Performance audit report	Maintenance backlog (\$ million)
Rail network	<i>V/Line Passenger Services</i> , tabled in Parliament on 9 August 2017	534.8
Schools	<i>Managing School Infrastructure</i> , tabled in Parliament on 11 May 2017	420.0
Public housing	<i>Managing Victoria’s Public Housing</i> , tabled in Parliament on 21 June 2017	227.5
TAFEs	<i>Technical and Further Education Institutes: 2016 Audit Snapshot</i> , tabled in Parliament on 7 June 2017	120.8
Total		1 303.1

Source: VAGO.

In our report *Maintaining State-Controlled Roadways* tabled in Parliament on 22 June 2017, we also identified that not enough funding is allocated to road maintenance to sustain the road network, and that VicRoads cannot demonstrate clearly that it is making the best use of its existing maintenance funds.

Spending on maintenance will need to increase in line with the increase in state infrastructure to avoid future maintenance backlogs which, in turn, can negatively affect asset lives, service delivery and overall life-cycle costs.

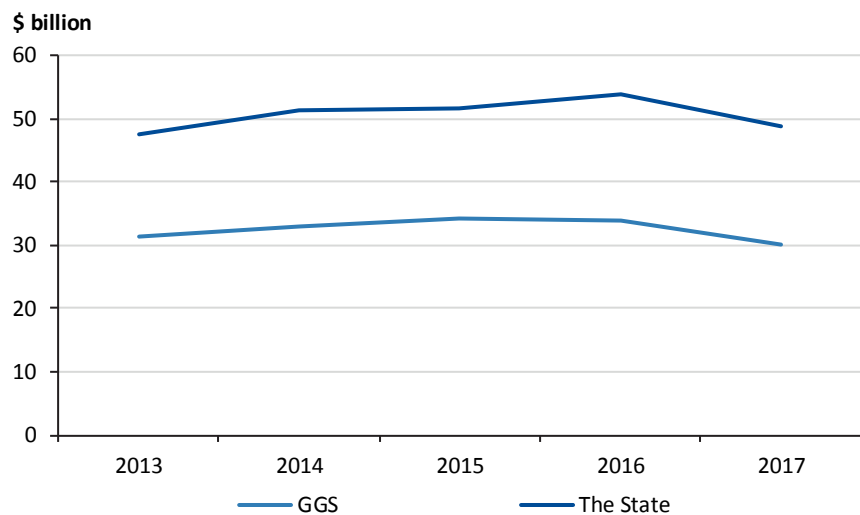
4.4 Debt sustainability

In financial terms, sustainable debt is defined as what the State can repay while balancing factors such as economic growth, interest rates and a capacity to generate surpluses in the future.

In part, debt results from government decisions about the type, timing and funding of capital projects and public services. The State's debt is mainly in the form of public borrowings raised through the Treasury Corporation of Victoria and finance leases relating to assets constructed under a public-private partnership arrangement.

Figure 4H shows the value of debt held by the State and GGS over the past five financial years.

Figure 4H
State of Victoria and GGS debt, 30 June 2013 to 30 June 2017



Source: VAGO.

The decrease in 2016–17 is due to the fact that the State repaid debt using the proceeds from the 50-year Port of Melbourne lease. The Delivering Victorian Infrastructure (Port of Melbourne Lease Transaction) Bill 2015 requires that proceeds from this lease be used to fund the Level Crossing Removal Program and other infrastructure projects. The State will therefore need to borrow to make future program payments. At 30 June 2017, \$8.27 billion of the proceeds remained available.

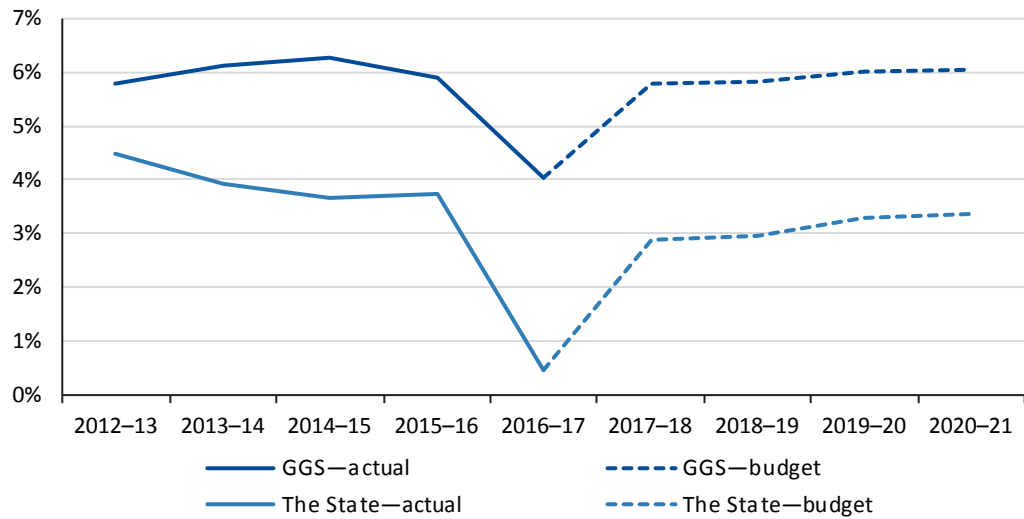
Net debt

The government assesses how manageable the State's debt is by comparing net debt to the State's overall economy, indicated by GSP.

A stable or declining ratio for this measure means that state debt is growing slower than the economy. Such a situation is regarded as sustainable when it is combined with operating surpluses after taking account of interest payments.

Figure 4I shows that the rate of growth in net debt for the State for the past four financial years has been below overall economic growth.

Figure 4I
Net debt as a percentage of GSP, 30 June 2013 to 30 June 2021



Source: VAGO.

The decrease in 2016–17 is primarily due to the repayment of debt using the proceeds from the Port of Melbourne lease and an increase in the value of equities and managed investments. The latter has been due to strong performance in Australian and international markets, resulting in higher returns.

The government has recognised that the prudent use of debt for major projects is an important source of finance, and it has a medium-term target of maintaining a sustainable level of GGS net debt as a percentage of GSP.

Over the next four financial years, net debt as a percentage of GSP is estimated to increase to 6.0 per cent in the GGS and 3.4 per cent at a state level. This is due to net debt increasing at a faster rate than GSP, and is primarily a result of increased borrowings to fund capital projects and public services.

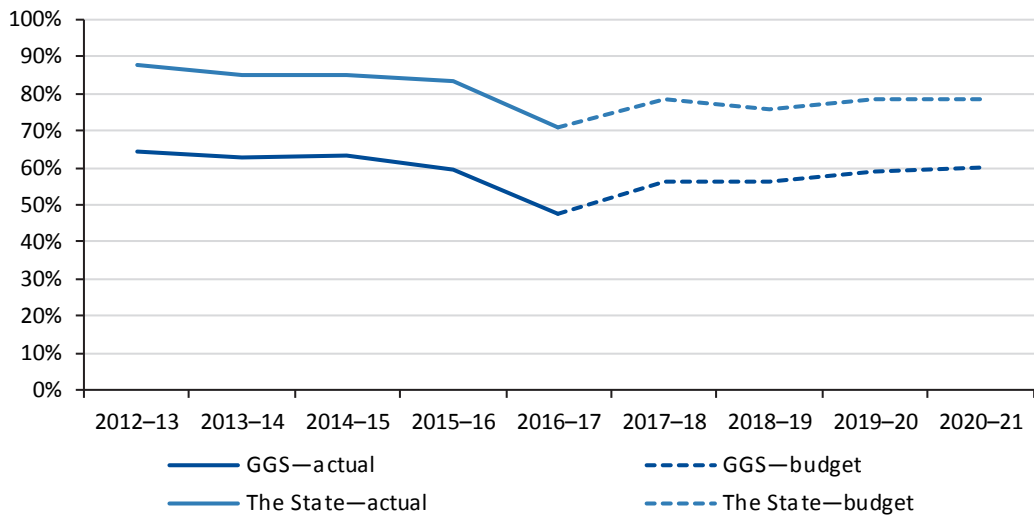
Gross debt

Although state governments commonly use net debt to GSP as a measure, it is also useful to compare gross debt to public sector revenue. This can be particularly informative if the growth in state revenue uncouples from economic growth, or in higher-interest-rate regimes, especially where the interest rate is higher than annual GSP growth. In these scenarios, debt servicing can become more problematic, as interest repayments take a greater bite from own-sourced revenue.

Figure 4J shows that, as for net debt, gross debt as a percentage of operating revenue has also declined over the past four financial years.

Figure 4J

Gross debt as a percentage of operating revenue, 30 June 2013 to 30 June 2021



Source: VAGO.

Gross debt as a percentage of operating revenue is estimated to increase in 2017-18, and then remain reasonably constant over the next three financial years.

Risks to debt sustainability

The analysis above indicates there is presently a relatively low risk to the State from increasing debt in the short term.

At 30 June 2017, debt consisted of \$38.9 billion of borrowings and \$9.9 billion of finance leases. This is estimated to increase to \$51.5 billion of borrowings and \$11.0 billion of finance leases by 30 June 2021.

The State ensures it has relative certainty over borrowing costs by generally borrowing at a fixed interest rate. At 30 June 2017, 94 per cent of the State's borrowings were at fixed rates of interest.

Victoria maintained its triple-A credit rating in the latest reports of both Moody's and Standard & Poor's. The triple-A credit rating, coupled with interest rates being at a historic low, give the State access to money at a relatively low cost.

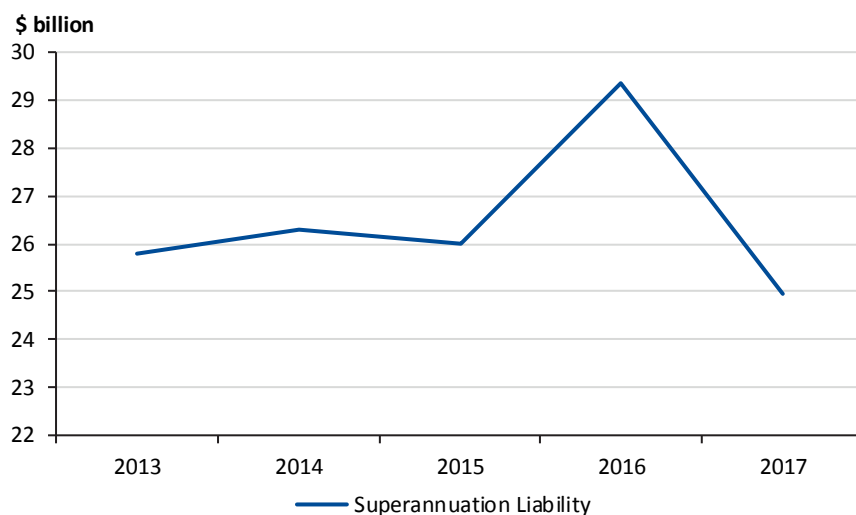
As the State's debt increases, so does the interest expense incurred to service the debt.

Superannuation liability

The State is responsible for meeting long-term obligations to employees who are members of four superannuation schemes—two of which no longer accept new members. The obligation represents the estimated difference between the future benefits payable to members and the assets held to cover those payments.

The government has a financial target of fully funding the unfunded superannuation liability by 2035. Historically, the schemes have not held enough assets at 30 June to cover future obligations. Therefore, a liability has been reported in the AFR. Figure 4K shows the value of the liability reported in the AFR at 30 June over the past five financial years.

Figure 4K
Superannuation liability held by the State of Victoria, 30 June 2013 to 30 June 2017



Source: VAGO.

The State's unfunded superannuation obligations fluctuate as the assets and liabilities of the funds are remeasured each financial year. The reported value of this obligation is largely outside of the government's control due to financial and demographic factors that affect it, including:

- the amount of benefits the schemes have paid during the year
- contributions made by the State and members during the year
- the expected return on assets held by the schemes
- movements in discount rates
- the expected rate of future salary increases
- the expected length of employee tenure.

During 2016–17, the superannuation liability decreased by \$4.4 billion. Figure 4L details the key drivers behind this.

Figure 4L
Key drivers that reduced the value of the State’s superannuation liability in 2016–17

Key drivers		Impact on value of superannuation liability
Asset experience	The actual returns on the State Super Fund and the Emergency Services Superannuation Scheme investments were significantly higher than expected—12.45% and 11.86% compared to an expected return of 5.5% and 4.9%.	Decrease of \$1.5 billion
Change in discount rate	The discount rate increased from 2.38% to 2.97% during 2016–17.	Decrease of \$1.9 billion
Liability experience	The actuary received more detailed information supporting actual member entitlements.	Decrease of \$1 billion

Source: VAGO.

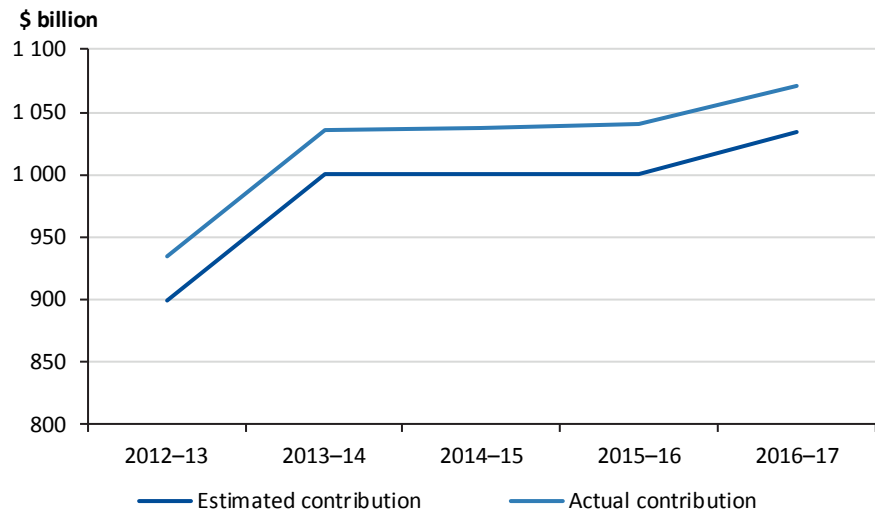
Movements in the reported superannuation liability resulting from a change in the discount rate have no impact on the nominal cash flows required to meet future obligations.

Fully funding the liability by 2035

Every year, independent actuaries calculate the amount that the government needs to pay to the funds each year to achieve its target of fully funding the unfunded superannuation liability by 2035. The future payments are incorporated into the State Budget each year.

Figure 4M compares the payments estimated by the actuary and the actual payments made by the government each financial year since 2012–13.

Figure 4M
Payments by the State of Victoria to reduce the superannuation liability—
actual and estimated, 2012–13 to 2016–17



Source: VAGO.

Over the past five financial years, the State has been making contributions to the superannuation schemes in line with the State Budget, indicating the State is on track to meet its 2035 target.

Appendix A

Audit Act 1994 section 16— submissions and comments

As required by section 16A of the *Audit Act 1994*, we gave a draft copy of this report to the Treasurer of Victoria and asked for his submissions or comments. As required by section 16(3) of the *Audit Act 1994*, we gave relevant extracts of this report to named agencies and asked for their submissions or comments. We have considered their views when reaching our audit conclusions. We also provided a copy of the report to the Department of Premier and Cabinet.

Responsibility for the accuracy, fairness and balance of those comments rests solely with the Treasurer of Victoria or agency head.

Responses were received as follows:

Treasurer of Victoria	44
Eastern Health	46
Country Fire Authority.....	47

RESPONSE provided by the Treasurer of Victoria



Treasurer of Victoria

1 Treasury Place
GPO Box 4379
Melbourne Victoria 3001
Telephone: +61 3 9651 5201
Facsimile: +61 3 9651 0759
DX210759

Mr Andrew Greaves
Auditor-General
Victorian Auditor General's Office
Level 31, 35 Collins Street
MELBOURNE VIC 3000

Dear Mr Greaves

Andrew,

RESPONSE TO THE AUDITOR-GENERAL'S REPORT ON THE ANNUAL FINANCIAL REPORT OF THE STATE OF VICTORIA, 2016-17

Thank you for your letter of 24 October 2017 seeking my response to your *Report on the Annual Financial Report (AFR) of the State of Victoria: 2016-17* (the Report) prior to its finalisation and transmission to Parliament.

I welcome the opportunity to comment on this Report which confirms the issue of a clear audit opinion on the financial statements for the State of Victoria and the General Government Sector for the financial year ended 30 June 2017. I note the Report further acknowledges that the 2016-17 AFR was timely, accurate and relevant, and also tabled in Parliament significantly earlier than in 2016.

It is particularly pleasing that the Report presents a positive assessment of the State's finances and operating sustainability, consistent with the Government's AFR, including the following conclusions:

- The State continues to operate sustainably and is well positioned financially;
- State borrowings reduced by \$5.1 billion in the 2016-17 year;
- Growth in State net debt since 2013 has been slower than growth in both gross state product and operating income; and
- The Government remains on-track to fully fund the State's unfunded superannuation liability by 2035.

The Report notes the level of employee expense growth over the past five years. Importantly, it also highlights that various Government initiatives in the education, health, transport and justice portfolios have contributed to this growth. The Government remains committed to providing fair reward for the work the public sector does, and to improving the services the public sector delivers, particularly at a time when Victoria's population is growing so strongly.

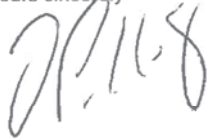


RESPONSE provided by the Treasurer of Victoria—continued

The Report also comments on the need for funding associated with minimising maintenance backlogs on infrastructure assets. It is however important to note that departments are responsible for managing funding pressures within their portfolios, including identifying the maintenance requirements of infrastructure assets and making budget bids for available funding. Government duly assesses the merit of all funding bids received in the context of set priorities and funding capacity. As noted in the 2017-18 Budget Papers, the Government is investing significantly in infrastructure to drive economic growth and respond to strong population growth.

Finally, I would like to thank your staff for the collaborative approach taken to the conduct of the audit of the AFR.

Yours sincerely

A handwritten signature in black ink, appearing to read 'TP/168', written over a light blue horizontal line.

TIM PALLAS MP
Treasurer

2 / 11 / 2017

RESPONSE provided by the Chief Executive, Eastern Health

easternhealth

5 Arnold Street
Box Hill VIC 3128
PO Box 94, Box Hill VIC 3128
Tel 1300 342 255
Fax 03 9895 4896
ABN 68 223 819 017
www.easternhealth.org.au

3 November 2017

Mr Andrew Greaves
Victorian Auditor-General's Office
Level 31/ 35 Collins St
Melbourne VIC 3000

Dear Andrew,


Response to the Auditor General's Report on the Annual Financial Report of the State of Victoria 2016-17

The independent review of the Auditor General to assist in improving the internal control environment to support the functioning of the Health Service is welcomed.

The internal control issues raised are noted and accepted, now forming a comprehensive action plan for resolution and monitoring of the associated risks through the Risk and Audit Committee and Board.

In relation to Information Technology, the finding was investigated and identified as a "false positive" by the vendor of Eastern Health's antimalware tool. With guidance from the vendor, Eastern Health has since updated the tool and is no longer reporting this vulnerability.

Yours Sincerely



David Plunkett
Chief Executive

Eastern Health 1300 342 255

Angliss Hospital	Box Hill Hospital	Healesville Hospital and Yarra Valley Health	Maroondah Hospital	Peter James Centre	Wantirna Health	Yarra Ranges Health
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Statewide Services

Spectrum	Turning Point
03 8833 3050	03 8413 8413

RESPONSE provided by the Chief Executive Officer, Country Fire Authority

Patron: Her Excellency the Honourable Linda Dessau AC, Governor of Victoria

Office of the CEO
Headquarters
8 Lakeside Drive, Burwood East Vic 3151
Phone: 9262 8605



Our Ref: FD:cp
15/771 D17/48135

25 October 2017

Mr Andrew Greaves
Victorian Auditor-General
Level 31/35 Collins Street
MELBOURNE VIC 3000

Dear Mr Greaves

**PROPOSED REPORT AUDITOR-GENERAL'S REPORT ON THE ANNUAL FINANCIAL
REPORT OF THE STATE OF VICTORIA: 2016-17**

Thank you for your letter of 24 October and the opportunity to comment on the extract referencing CFA in the proposed report *Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2016-17*.

We have noted this reference and have no further comment to add.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Frances Diver', is positioned above the printed name.

**Frances Diver
Chief Executive Officer**

cc: Audit Director via email timothy.maxfield@audit.vic.gov.au

Protecting lives and property

cfa.vic.gov.au

Appendix B

Audit opinions

Figures B1 to B17 provide information on the audit opinions issued for the 276 entities consolidated into the AFR.

Entities are listed in the following order:

General government sector

Department of Economic Development, Jobs, Transport and Resources	50
Department of Education and Training	51
Department of Environment, Land, Water and Planning	52
Department of Health and Human Services.....	53
Department of Justice and Regulation	56
Department of Premier and Cabinet	57
Department of Treasury and Finance	58
Courts	58
Parliament of Victoria.....	58
Victorian Auditor-General's Office.....	58

Public non-financial corporations

Department of Economic Development, Jobs, Transport and Resources	59
Department of Environment, Land, Water and Planning	60
Department of Health and Human Services.....	61
Department of Justice and Regulation	62
Department of Premier and Cabinet	62
Department of Treasury and Finance	62

Public financial corporations

Department of Treasury and Finance	63
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General government sector

Figure B1

Department of Economic Development, Jobs, Transport and Resources

Entity	Significant state-controlled entity	Legislative time frame	Audit certification date	Clear audit opinion
Australian Centre for the Moving Image		✓	8 Sep 17	✓
Department of Economic Development, Jobs, Transport and Resources	✓	✓	14 Sep 17	✓
Docklands Studios Melbourne Pty Ltd		✓	30 Aug 17	✓
Energy Safe Victoria		✓	31 Aug 17	✓
Film Victoria		✓	25 Aug 17	✓
Game Management Authority		X	13 Oct 17	✓
Library Board of Victoria		✓	30 Aug 17	✓
Melbourne Cricket Ground Trust		✓	3 Aug 17	✓
Melbourne Recital Centre Limited		✓	1 Sep 17	✓
Museums Board of Victoria		✓	15 Sep 17	✓
National Gallery of Victoria, Council of Trustees	✓	✓	1 Sep 17	✓
Public Transport Development Authority	✓	X	9 Sep 17	✓
Roads Corporation	✓	✓	30 Aug 17	✓
Taxi Services Commission		X	13 Oct 17	✓
Veterinary Practitioners Registration Board of Victoria		✓	11 Sep 17	✓
Visit Victoria		X	25 Oct 17	✓

Source: VAGO.

Figure B2
Department of Education and Training

Entity	Significant state-controlled entity	Legislative time frame	Audit certification date	Clear audit opinion
Adult Community and Further Education Board		✓	7 Sep 17	✓
Adult Multicultural Education Services		✓	23 Aug 17	✓
Bendigo Kangan Institute		✓	6 Mar 17	✓
Box Hill Institute		✓	23 Mar 17	✓
Chisholm Institute		✓	7 Mar 17	✓
Department of Education and Training	✓	✓	24 Aug 17	✓
Federation Training		✗	25 Aug 17	✓
Gordon Institute of TAFE		✓	22 Mar 17	✓
Goulburn Ovens Institute of TAFE		✓	17 Mar 17	✓
Holmesglen Institute		✓	23 Mar 17	✓
Melbourne Polytechnic		✓	7 Mar 17	✓
South West Institute of TAFE		✓	23 Mar 17	✓
Sunraysia Institute of TAFE		✓	30 Mar 17	✓
Victorian Curriculum and Assessment Authority		✓	25 Aug 17	✓
Victorian Institute of Teaching		✓	17 Aug 17	✓
Victorian Registration and Qualifications Authority		✓	25 Aug 17	✓
William Angliss Institute of TAFE		✓	17 Mar 17	✓
Wodonga Institute of TAFE		✓	9 May 17	✓

Source: VAGO.

Figure B3

Department of Environment, Land, Water and Planning

Entity	Significant state-controlled entity	Legislative time frame	Audit certification date	Clear audit opinion
Architects Registration Board of Victoria		X	11 Oct 17	✓
Corangamite Catchment Management Authority		✓	31 Aug 17	✓
Department of Environment, Land, Water and Planning	✓	✓	7 Sep 17	✓
Dhelkunya Dja Land Management Board		X	12 Oct 17	✓
East Gippsland Catchment Management Authority		✓	12 Sep 17	✓
Environment Protection Authority		✓	28 Aug 17	✓
Glenelg Hopkins Catchment Management Authority		✓	1 Sep 17	✓
Goulburn Broken Catchment Management Authority		✓	25 Aug 17	✓
Gunaikurnai Traditional Owner Land Management		X	6 Oct 17	✓
Heritage Council of Victoria		✓	13 Sep 17	✓
Mallee Catchment Management Authority		✓	31 Aug 17	✓
Metropolitan Planning Authority		✓	18 Aug 17	✓
North Central Catchment Management Authority		✓	21 Aug 17	✓
North East Catchment Management Authority		✓	21 Aug 17	✓
Office of the Commissioner for Environmental Sustainability		X	26 Sep 17	✓
Parks Victoria	✓	✓	22 Aug 17	✓
Port Phillip and Westernport Catchment Management Authority		✓	23 Aug 17	✓
Royal Botanic Gardens Board Victoria		✓	4 Sep 17	✓
Surveyors Registration Board of Victoria		X	11 Oct 17	✓
Sustainability Victoria		✓	31 Aug 17	✓
Trust for Nature (Victoria)		✓	8 Sep 17	✓
Victorian Building Authority		✓	5 Sep 17	✓
Victorian Environmental Water Holder		✓	21 Sep 17	✓
West Gippsland Catchment Management Authority		✓	4 Sep 17	✓
Wimmera Catchment Management Authority		✓	30 Aug 17	✓
Yorta Yorta Traditional Owner Land Management Board			Not yet signed ^(a)	

(a) Outstanding at the time of publishing this report.

Source: VAGO.

Figure B4
Department of Health and Human Services

Entity	Significant state-controlled entity	Legislative time frame	Audit certification date	Clear audit opinion
Albury Wodonga Health		✓	25 Aug 17	✓
Alexandra District Health		✓	4 Sep 17	✓
Alfred Health	✓	✓	25 Aug 17	✓
Alpine Health		✓	31 Aug 17	✓
Ambulance Victoria	✓	✓	18 Aug 17	✓
Austin Health	✓	✓	22 Aug 17	✓
Bairnsdale Regional Health Service		✓	24 Aug 17	✓
Ballarat Health Services		✓	22 Aug 17	✓
Barwon Health	✓	✓	21 Aug 17	✓
Bass Coast Health		✓	28 Aug 17	✓
Beaufort and Skipton Health Service		✓	1 Sep 17	✓
Beechworth Health Service		✓	1 Sep 17	✓
Benalla Health		✓	24 Aug 17	✓
Bendigo Health Care Group		✗	6 Oct 17	✓
Boort District Health		✓	7 Sep 17	✓
Casterton Memorial Hospital		✓	25 Aug 17	✓
Castlemaine Health		✓	4 Sep 17	✓
Central Gippsland Health Service		✓	21 Aug 17	✓
Cobram District Health		✓	1 Sep 17	✓
Cohuna District Hospital		✓	31 Aug 17	✓
Colac Area Health		✓	22 Sep 17	✓
Dental Health Services Victoria		✓	16 Aug 17	✓
Department of Health and Human Services	✓	✓	31 Aug 17	✓
Djerriwarrh Health Services		✓	21 Aug 17	✓
East Grampians Health Service		✓	25 Aug 17	✓
East Wimmera Health Service		✓	21 Aug 17	✓
Eastern Health	✓	✓	21 Aug 17	✓
Echuca Regional Health		✓	24 Aug 17	✓
Edenhope and District Memorial Hospital		✓	1 Sep 17	✓
Gippsland Southern Health Service		✓	7 Sep 17	✓
Goulburn Valley Health		✓	31 Aug 17	✓

Entity	Significant state-controlled entity	Legislative time frame	Audit certification date	Clear audit opinion
Health Purchasing Victoria		✓	22 Aug 17	✓
Heathcote Health		✓	1 Sep 17	✓
Hepburn Health Service		✓	30 Aug 17	✓
Hesse Rural Health Service		✓	1 Sep 17	✓
Heywood Rural Health		✓	23 Aug 17	✓
Inglewood and Districts Health Service		✓	18 Sep 17	✓
Kerang District Health		✓	15 Sep 17	✓
Kilmore and District Health		✓	25 Aug 17	✓
Kooweerup Regional Health Service		✓	14 Sep 17	✓
Kyabram and District Health Services		✓	29 Aug 17	✓
Kyneton District Health Service		✓	31 Aug 17	✓
Latrobe Regional Hospital		✓	28 Aug 17	✓
Lorne Community Hospital		✓	29 Aug 17	✓
Maldon Hospital		✓	1 Sep 17	✓
Mallee Track Health and Community Service		✓	4 Sep 17	✓
Mansfield District Hospital		✓	25 Aug 17	✓
Maryborough District Health Service		✓	25 Aug 17	✓
Melbourne Health	✓	✓	23 Aug 17	✓
Monash Health	✓	✓	21 Aug 17	✓
Moyne Health Services		✓	25 Aug 17	✓
Nathalia District Hospital		✓	31 Aug 17	✓
Northeast Health Wangaratta		✓	25 Aug 17	✓
Northern Health		✓	25 Aug 17	✓
Numurkah District Health Service		✓	6 Sep 17	✓
Omeo District Health		✓	13 Sep 17	✓
Orbost Regional Health		✓	31 Aug 17	✓
Otway Health		✓	29 Aug 17	✓
Peninsula Health		✓	1 Sep 17	✓
Peter MacCallum Cancer Institute	✓	✓	12 Sep 17	✓
Portland District Health		✓	23 Aug 17	✓
Robinvale District Health Services		✓	31 Aug 17	✓
Rochester and Elmore District Health Service		✓	31 Aug 17	✓
Rural Northwest Health		✓	28 Aug 17	✓

Entity	Significant state-controlled entity	Legislative time frame	Audit certification date	Clear audit opinion
Seymour Health		✓	5 Sep 17	✓
South Gippsland Hospital		✓	31 Aug 17	✓
South West Healthcare		✓	23 Aug 17	✓
Stawell Regional Health		✓	26 Aug 17	✓
Swan Hill District Health		✓	5 Sep 17	✓
Tallangatta Health Service		✓	4 Sep 17	✓
Terang and Mortlake Health Service		✓	23 Aug 17	✓
The Queen Elizabeth Centre		✓	22 Aug 17	✓
The Royal Children's Hospital	✓	✓	29 Aug 17	✓
The Royal Victorian Eye and Ear Hospital		✓	1 Sep 17	✓
The Royal Women's Hospital		✓	22 Aug 17	✓
Timboon and District Healthcare Service		✓	21 Aug 17	✓
Tweddle Child and Family Health Service		✓	14 Sep 17	✓
Upper Murray Health and Community Services		✓	11 Sep 17	✓
Victorian Assisted Reproductive Treatment Authority		✓	1 Sep 17	✓
Victorian Health Promotion Foundation		✓	25 Aug 17	✓
Victorian Institute of Forensic Mental Health		✓	7 Sep 17	✓
Victorian Institute of Sport Limited		✓	13 Sep 17	✓
Victorian Institute of Sport Trust		✓	13 Sep 17	✓
Victorian Pharmacy Authority		✓	1 Sep 17	✓
West Gippsland Healthcare Group		✓	5 Sep 17	✓
West Wimmera Health Service		✓	29 Aug 17	✓
Western District Health Service		✓	5 Sep 17	✓
Western Health	✓	✓	21 Aug 17	✓
Wimmera Health Care Group		✓	28 Aug 17	✓
Yarram and District Health Service		✓	23 Aug 17	✓

Source: VAGO.

Figure B5
Department of Justice and Regulation

Entity	Significant state-controlled entity	Legislative time frame	Audit certification date	Clear audit opinion
Country Fire Authority	✓	X	3 Oct 17	✓
Court Services Victoria	✓	X	28 Sep 17	✓
Department of Justice and Regulation	✓	✓	15 Sep 17	✓
Emergency Services Telecommunications Authority		✓	28 Aug 17	✓
Metropolitan Fire and Emergency Services Board	✓	✓	31 Aug 17	✓
Office of Public Prosecutions		X	10 Oct 17	✓
Residential Tenancies Bond Authority	✓	✓	19 Sep 17	✓
Senior Master of the Supreme Court	✓	✓	31 Aug 17	✓
Sentencing Advisory Council		X	5 Oct 17	✓
Victoria Legal Aid		✓	31 Aug 17	✓
Victoria Police (Office of the Chief Commissioner of Police)	✓	✓	13 Sep 17	✓
Victoria State Emergency Service Authority		X	27 Sep 17	✓
Victorian Commission for Gambling and Liquor Regulation	✓	X	2 Oct 17	✓
Victorian Equal Opportunity and Human Rights Commission		X	12 Oct 17	✓
Victorian Institute of Forensic Medicine		X	12 Oct 17	✓
Victorian Law Reform Commission		X	6 Oct 17	✓
Victorian Legal Services Board	✓	✓	18 Aug 17	✓
Professional Standards Council of Victoria		X	20 Oct 17	✓
Victorian Responsible Gambling Foundation		X	2 Oct 17	✓

Source: VAGO.

Figure B6

Department of Premier and Cabinet

Entity	Significant state-controlled entity	Legislative time frame	Audit certification date	Clear audit opinion
Department of Premier and Cabinet	✓	✓	14 Sep 17	✓
Independent Broad-based Anti-corruption Commission (IBAC)		✓	6 Sep 17	✓
Infrastructure Victoria		X	25 Sep 17	✓
Office of the Commissioner for Privacy and Data Protection		X	28 Sep 17	✓
Ombudsman Victoria		X	25 Sep 17	✓
Shrine of Remembrance Trustees			Not yet signed ^(a)	
Victorian Electoral Commission		✓	14 Sep 17	✓
Victorian Inspectorate		✓	19 Sep 17	✓
Victorian Public Sector Commission		✓	11 Sep 17	✓

(a) Outstanding at the time of publishing this report.

Source: VAGO.

Figure B7
Department of Treasury and Finance

Entity	Significant state-controlled entity	Legislative time frame	Audit certification date	Clear audit opinion
CenITex		X	13 Oct 17	✓
Department of Treasury and Finance	✓	✓	18 Sep 17	✓
Essential Services Commission		X	11 Oct 17	✓

Source: VAGO.

Figure B8
Courts

Entity	Significant state-controlled entity	Legislative time frame	Audit certification date	Clear audit opinion
Judicial College of Victoria		X	9 Oct 17	✓

Source: VAGO.

Figure B9
Parliament of Victoria

Entity	Significant state-controlled entity	Legislative time frame	Audit certification date	Clear audit opinion
Parliament of Victoria		✓	28 Aug 17	✓

Source: VAGO.

Figure B10
Victorian Auditor-General's Office

Entity	Significant state-controlled entity	Legislative time frame	Audit certification date	Clear audit opinion
Victorian Auditor-General's Office		✓	31 Aug 17	✓

Source: VAGO.

Public non-financial corporations

Figure B11

Department of Economic Development, Jobs, Transport and Resources

Entity	Significant state-controlled entity	Legislative time frame	Audit certification date	Clear audit opinion
Agriculture Victoria Services Pty Ltd		✓	28 Aug 17	✓
Australian Grand Prix Corporation		✓	24 Aug 17	✓
Dairy Food Safety Victoria		✓	28 Aug 17	✓
Development Victoria			Not yet signed ^(a)	
Emerald Tourist Railway Board		✓	18 Sep 17	✓
Fed Square Pty Ltd		✓	11 Sep 17	✓
Geelong Performing Arts Centre Trust		✓	30 Aug 17	✓
Launch Vic		X	31 Oct 17	✓
Melbourne and Olympic Parks Trust		✓	25 Aug 17	✓
Melbourne Convention and Exhibition Trust		✓	25 Aug 17	✓
Melbourne Market Authority		✓	4 Sep 17	✓
Melbourne Port Lessor Pty Ltd	✓	✓	7 Sep 17	✓
Murray Valley Wine Grape Industry Development Committee		X	25 Sep 17	✓
Port of Hastings Development Authority		✓	6 Sep 17	✓
PrimeSafe		✓	22 Aug 17	✓
Urban Renewal Authority Victoria (Places Victoria)	✓	✓	6 Sep 17	✓
V/Line Corporation	✓	✓	18 Aug 17	✓
VicForests		✓	20 Sep 17	✓
Victorian Arts Centre Trust		✓	11 Sep 17	✓
Victorian Major Events Company Limited		✓	12 Sep 17	✓
Victorian Ports Corporation ^(b)		✓	1 Sep 17	✓
Victorian Rail Track	✓	✓	15 Sep 17	✓
Victorian Regional Channels Authority		✓	3 Sep 17	✓
Victorian Strawberry Industry Development Committee		✓	11 Aug 17	✓

(a) Development Victoria was formed on 1 April 2017 and received an exemption to prepare 15-month accounts in 2017–18.

(b) Formerly Port of Melbourne Corporation.

Source: VAGO.

Figure B12
Department of Environment, Land, Water and Planning

Entity	Significant state-controlled entity	Legislative time frame	Audit certification date	Clear audit opinion
Alpine Resorts Co-ordinating Council		X	11 Oct 17	✓
Barwon Region Water Corporation	✓	✓	22 Aug 17	✓
Barwon South West Waste and Resource Recovery Group		✓	31 Aug 17	✓
Central Gippsland Region Water Corporation		✓	4 Sep 17	✓
Central Highlands Region Water Corporation		✓	5 Sep 17	✓
City West Water Corporation	✓	✓	29 Aug 17	✓
Coliban Region Water Corporation		✓	1 Sep 17	✓
East Gippsland Region Water Corporation		✓	7 Sep 17	✓
Falls Creek Alpine Resort Management Board		✓	12 May 17	✓
Gippsland and Southern Rural Water Corporation		✓	7 Sep 17	✓
Gippsland Waste and Resource Recovery Group		X	9 Oct 17	✓
Goulburn Murray Rural Water Corporation	✓	✓	28 Aug 17	✓
Goulburn Valley Region Water Corporation		✓	25 Aug 17	✓
Goulburn Valley Waste and Resource Recovery Group		✓	8 Sep 17	✓
Grampians Central Waste and Resource Recovery Group		✓	6 Sep 17	✓
Grampians Wimmera Mallee Water Corporation	✓	✓	23 Aug 17	✓
Lake Mountain Alpine Resort Management Board		✓	18 Apr 17	✓
Loddon Mallee Waste and Resource Recovery Group		✓	24 Aug 17	✓
Lower Murray Urban and Rural Water Corporation		✓	12 Sep 17	✓
Melbourne Water Corporation	✓	✓	31 Aug 17	✓
Metropolitan Waste and Resource Recovery Group		✓	8 Sep 17	✓
Mount Baw Baw Alpine Resort Management Board		✓	13 Apr 17	✓
Mount Buller and Mount Stirling Alpine Resort Management Board		✓	27 Apr 17	✓
Mount Hotham Alpine Resort Management Board		✓	27 Feb 17	✓
North East Region Water Corporation		✓	22 Aug 17	✓
North East Waste and Resource Recovery Group		X	16 Oct 17	✓

Entity	Significant state-controlled entity	Legislative time frame	Audit certification date	Clear audit opinion
Phillip Island Nature Parks		✓	7 Sep 17	✓
South East Water Corporation	✓	✓	5 Sep 17	✓
South Gippsland Region Water Corporation		✓	13 Sep 17	✓
Wannon Region Water Corporation		✓	1 Sep 17	✓
Western Region Water Corporation		✓	8 Sep 17	✓
Westernport Region Water Corporation		X	10 Oct 17	✓
Yarra Valley Water Corporation	✓	✓	31 Aug 17	✓
Zoological Parks and Gardens Board		✓	11 Sep 17	✓

Source: VAGO.

Figure B13
Department of Health and Human Services

Entity	Significant state-controlled entity	Legislative time frame	Audit certification date	Clear audit opinion
Ballarat General Cemeteries Trust		✓	1 Sep 17	✓
Bendigo Cemeteries Trust		✓	5 Sep 17	✓
Geelong Cemeteries Trust		✓	16 Aug 17	✓
Greater Metropolitan Cemeteries Trust		✓	16 Aug 17	✓
Mildura Cemetery Trust		X	28 Sep 17	✓
Southern Metropolitan Cemeteries Trust		✓	7 Aug 17	✓
State Sport Centres Trust		✓	8 Sep 17	✓

Source: VAGO.

Figure B14
Department of Justice and Regulation

Entity	Significant state-controlled entity	Legislative time frame	Audit certification date	Clear audit opinion
Greyhound Racing Victoria		✓	30 Aug 17	✓
Harness Racing Victoria		X	24 Oct 17	✓

Source: VAGO.

Figure B15
Department of Premier and Cabinet

Entity	Significant state-controlled entity	Legislative time frame	Audit certification date	Clear audit opinion
Queen Victoria Women's Centre Trust		✓	24 Aug 17	✓
VITS Languagelink		✓	14 Sep 17	✓

Source: VAGO.

Figure B16
Department of Treasury and Finance

Entity	Significant state-controlled entity	Legislative time frame	Audit certification date	Clear audit opinion
Accident Compensation Conciliation Service			Not yet signed ^(a)	
State Electricity Commission of Victoria	✓	✓	18 Sep 17	✓
Victorian Plantations Corporation (shell)		✓	20 Sep 17	✓

(a) The Minister for Finance has extended the reporting period for this entity.

Source: VAGO.

Public financial corporations

Figure B17
Department of Treasury and Finance

Entity	Significant state-controlled entity	Legislative time frame	Audit certification date	Clear audit opinion
State Trustees Limited	✓	✓	28 Aug 17	✓
Transport Accident Commission	✓	✓	4 Sep 17	✓
Treasury Corporation of Victoria	✓	✓	14 Aug 17	✓
Victorian Funds Management Corporation	✓	✓	18 Aug 17	✓
Victorian Managed Insurance Authority	✓	✓	30 Aug 17	✓
Victorian WorkCover Authority (WorkSafe Victoria)	✓	✓	28 Aug 17	✓

Source: VAGO.

Appendix C

AFR audit opinion

Independent Auditor's Report

To the Treasurer of the State of Victoria

VAGO

Victorian Auditor-General's Office

Opinion	<p>I have audited the consolidated financial report of the State of Victoria (State) and the Victorian General Government Sector (General Government Sector), which comprises the:</p> <ul style="list-style-type: none"> • consolidated State and General Government Sector balance sheets as at 30 June 2017 • consolidated State and General Government Sector comprehensive operating statements for the year then ended • consolidated State and General Government Sector statements of changes in equity for the year then ended • consolidated State and General Government Sector cash flow statements for the year then ended • notes to the financial statements, including significant accounting policies • certification by the Treasurer and the Department of Treasury and Finance. <p>In my opinion, the consolidated financial report presents fairly, in all material respects, the financial positions of the State and the General Government Sector as at 30 June 2017 and their financial performance and cash flows for the year then ended in accordance with the financial reporting requirements of Section 24 of the <i>Financial Management Act 1994</i> and applicable Australian Accounting Standards.</p>
Basis for opinion	<p>I have conducted my audit in accordance with the <i>Audit Act 1994</i>, which incorporates the Australian Auditing Standards. I further describe my responsibilities under that Act and those standards in the <i>Auditor's Responsibilities for the Audit of the Financial Report</i> section of my report.</p> <p>My independence is established by the <i>Constitution Act 1975</i>. My staff and I are independent of the State and the General Government Sector in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's <i>APES 110 Code of Ethics for Professional Accountants</i> (the Code) that are relevant to my audit of the financial report in Victoria. My staff and I have also fulfilled our other ethical responsibilities in accordance with the Code.</p> <p>I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.</p>
Key audit matters	<p>Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial report of the current period. These matters were addressed in the context of my audit of the financial report as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.</p>

Key audit matter	How I addressed the matter
Valuation of defined benefit superannuation liability Refer to Note 6.5 of the financial report	
<p>Defined benefit superannuation liability - \$24.9 billion (\$1.0 billion current, \$23.9 billion non-current).</p> <p>I considered this to be a key audit matter because:</p> <ul style="list-style-type: none"> • the defined benefit superannuation liability is financially significant • the underlying model used to value the liability is complex • a significant degree of management judgement is required to determine key assumptions used in valuing the liability • a small adjustment to an assumption may have a significant effect on the total value of the liability. <p>Management engage an actuary to value the liability as at 30 April, then adjust the value of the liability to 30 June to account for actual market performance and movements in key assumptions since that date.</p> <p>Refer to Note 6.5 of the financial report for management's key assumptions and a sensitivity analysis.</p>	<p>I relied on the work completed within my audits of the Emergency Services Superannuation Scheme (ESSS) and the Department of Treasury and Finance.</p> <p>My key procedures performed in this work included:</p> <ul style="list-style-type: none"> • assessing and testing the operating effectiveness of the key controls we identified supporting the membership data used in the liability valuation model (the model) • assessing the completeness and accuracy of the membership data used in the model by reconciling this data to underlying membership data in the ESSS system • obtaining management's actuarial report and year-end adjustments, and engaging an appropriately qualified actuary to: <ul style="list-style-type: none"> ○ assess the appropriateness of the model ○ challenge the reasonableness of key assumptions by comparing against accepted industry benchmarks ○ assess the reasonableness of the reported liability value. • assessing the adequacy of financial report disclosures against the requirements of applicable Australian accounting standards.
Valuation of provision for insurance claims Refer to Note 6.6 of the financial report	
<p>Provision for insurance claims - \$28.1 billion (\$3.5 billion current, \$24.6 billion non-current).</p> <p>I considered this to be a key audit matter because:</p> <ul style="list-style-type: none"> • the provision for insurance claims is financially significant • the underlying model used to value the provision is complex • a significant degree of management judgement is required to determine key assumptions used in valuing the provision • a small adjustment to an assumption may have a significant effect on the total value of the provision. <p>Refer to Note 6.6.1 of the financial report for management's key assumptions.</p>	<p>I relied on the work completed within my audits of the Victorian WorkCover Authority, Transport Accident Commission and Victorian Managed Insurance Authority.</p> <p>My key procedures performed in this work included:</p> <ul style="list-style-type: none"> • testing the operating effectiveness of the key controls we identified supporting the underlying claims data used in the provision valuation model (the model) • engaging an appropriately qualified actuary to: <ul style="list-style-type: none"> ○ assess the appropriateness of the model ○ challenge the reasonableness of key assumptions by comparing against claims history and accepted industry benchmarks ○ assess the reasonableness of the reported provision value. • assessing the adequacy of financial report disclosures against the requirements of applicable Australian accounting standards.

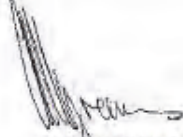
Auditor's responsibilities for the audit of the financial report (continued)

- evaluate the overall presentation, structure and content of the consolidated financial report, including the disclosures, and whether the consolidated financial report represents the underlying transactions and events in a manner that achieves fair presentation
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the State and the General Government Sector to express an opinion on the consolidated financial report. I remain responsible for the direction, supervision and performance of the audit of the consolidated financial report. I remain solely responsible for my audit opinion.

I communicate with the Treasurer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

From the matters communicated with the Treasurer, I determine those matters that were of most significance in the audit of the consolidated financial report of the current period and are therefore the key audit matters. I describe these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

MELBOURNE
18 September 2017



Andrew Greaves
Auditor-General

Appendix D

Management letter risk ratings

Figure D1
Risk definitions applied to issues reported in audit management letters

Rating	Definition	Management action required
Extreme	<p>The issue represents:</p> <ul style="list-style-type: none"> a control weakness which could cause or is causing severe disruption of the process or severe adverse effect on the ability to achieve process objectives and comply with relevant legislation, or a material misstatement in the financial report has occurred. 	<p>Requires immediate management intervention with a detailed action plan to be implemented within one month.</p> <p>Requires executive management to correct the material misstatement in the financial report as a matter of urgency to avoid a modified audit opinion.</p>
High	<p>The issue represents:</p> <ul style="list-style-type: none"> a control weakness which could have or is having a major adverse effect on the ability to achieve process objectives and comply with relevant legislation, or a material misstatement in the financial report that is likely to occur. 	<p>Requires prompt management intervention with a detailed action plan implemented within two months.</p> <p>Requires executive management to correct the material misstatement in the financial report to avoid a modified audit opinion.</p>
Medium	<p>The issue represents:</p> <ul style="list-style-type: none"> a control weakness which could have or is having a moderate adverse effect on the ability to achieve process objectives and comply with relevant legislation, or a misstatement in the financial report that is not material and has occurred. 	<p>Requires management intervention with a detailed action plan implemented within three to six months.</p>
Low	<p>The issue represents:</p> <ul style="list-style-type: none"> a minor control weakness with minimal but reportable impact on the ability to achieve process objectives and comply with relevant legislation, or a misstatement in the financial report that is likely to occur but is not expected to be material, or an opportunity to improve an existing process or internal control. 	<p>Requires management intervention with a detailed action plan implemented within six to 12 months.</p>

Source: VAGO.

Appendix E

Glossary

Accountability

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

Adverse opinion

An audit opinion expressed if the auditor has sufficient appropriate audit evidence and concludes that misstatements, individually and in aggregate, are both material and pervasive in the financial report.

Amortisation

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

Asset

An item or resource controlled by an entity that will be used to generate economic benefits.

Asset valuation

The fair value of a non-current asset on a specified date.

Audit Act 1994

Victorian legislation establishing the Auditor-General's operating powers and responsibilities and detailing the nature and scope of audits that the Auditor-General may carry out.

Audit committee

Helps a governing board to fulfil its governance and oversight responsibilities and strengthen the accountability of senior management.

Audit opinion

A written expression, within a specified framework, indicating the auditor's overall conclusion about a financial (or performance) report based on audit evidence.

Calendar year

A period of a year beginning with January 1 and ending with December 31.

Capital expenditure

Money an entity spends on:

- new physical assets, including property, infrastructure, plant and equipment
- renewing existing physical assets to extend their service potential or life.

Capital grant/capital purpose income

Government funding for an agency to acquire or build capital assets such as land, buildings or equipment.

Carrying value

The original cost of an asset, less the accumulated amount of any depreciation or amortisation, less the accumulated amount of any asset impairment.

Clear audit opinion

A positive written expression provided when the financial report has been prepared and presents fairly the transactions and balances for the reporting period in keeping with the requirements of the relevant legislation and Australian Accounting Standards. Also referred to as an unqualified audit opinion.

Control environment

Processes within an entity's governance and management structure that provide reasonable assurance about the achievement of an entity's objectives in terms of the reliability of financial reporting, the effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Corporations Act 2001

Commonwealth legislation governing corporations, including their financial reporting framework.

Current asset

An asset that will be sold or realised within 12 months of the end of the financial year being reported on, such as term deposits maturing in three months or stock items available for sale.

Current liability

A liability that will be settled within 12 months of the end of the financial year being reported on, such as payment of a creditor for services provided to the entity.

Debt

Money owed by one party to another party.

Deficit

When total expenditure is more than total revenue.

Depreciated replacement cost

Current replacement cost less accumulated depreciation to reflect the economic benefits of the assets that have been consumed.

Depreciation

Systematic allocation of the value of an asset over its expected useful life, recorded as an expense.

Disclaimer of opinion

Conclusion expressed if the auditor is unable to obtain sufficient appropriate audit evidence on which to base an audit opinion, and concludes that the possible effects on the financial (or performance) report of undetected misstatements, if any, could be both material and pervasive.

Eliminations

Removing the effect of transactions between entities when preparing consolidated financial statements.

Emphasis of matter

A paragraph included in the audit opinion of a financial report that refers to a matter appropriately presented or disclosed that, in the auditor's judgement, is of such importance that it is fundamental to users' understanding of the financial report.

Entity

A corporate or unincorporated body 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 its liabilities have been deducted.

Expense

The outflow of assets or the depletion of assets an entity controls during the financial year, including expenditure and the depreciation of physical assets. An expense can also be the incurrence of liabilities during the financial year, such as increases to a provision.

Fair value

The price that would be received if an asset was sold or the price paid to transfer a liability in the course of an orderly transaction between market participants at the measurement date.

Financial Management Act 1994

Victorian legislation governing the financial management of public sector entities, as determined by the Minister of Finance, including their financial reporting framework.

Financial report

A document reporting the financial outcome and position of an entity for a financial year, which contains financial statements including a comprehensive income statement, a balance sheet, a cash flow statement, a comprehensive statement of equity, and notes.

Financial Reporting Directions

Issued by the Minister of Finance for entities reporting under the *Financial Management Act 1994*, with the aim of:

- achieving consistency and improved disclosure in financial reporting for Victorian public entities by eliminating or reducing divergence in accounting practices
- prescribing the accounting treatment and disclosure of financial transactions in circumstances where there are choices in accounting treatment, or where existing accounting pronouncements have no guidance or requirements.

Financial sustainability

An entity's ability to manage financial resources so it can meet its current and future spending commitments, while maintaining assets in the condition required to provide services.

Financial year

A period of 12 months for which a financial report is prepared, which may be a different period to the calendar year.

Fiscal targets

Targets set by the government to meet short- and medium-term economic objectives.

General government sector

All government departments, offices and other bodies that provide services free of charge or at prices significantly below their cost of production, less eliminations. General government services include those that are mainly non-market-based, those that are largely for collective consumption by the community, and those that involve the transfer or redistribution of income. These services are financed mainly through taxes, other compulsory levies and user charges.

Going concern

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

Governance

The control arrangements used to govern and monitor an entity's activities to achieve its strategic and operational goals.

Impairment (loss)

The amount by which the value of an entity's asset exceeds its recoverable value.

Income

The inflow of assets or decrease of liabilities during the financial year, including receipt of cash and the reduction of a provision.

Income approach

A valuation technique that converts future amounts, such as cash flows or income and expenses, to a single current (discounted) amount. The fair value of those future amounts is measured as an indication of current market expectations.

Intangible asset

An identifiable non-financial asset, controlled by an entity, that cannot be physically seen, such as software licences or a patent.

Internal audit

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

Internal control

A method of directing, monitoring and measuring an entity's resources and processes to prevent and detect error and fraud.

Investment

Public or private sector expenditure for the development and/or use of infrastructure assets, intended to result in medium- to long-term service and/or financial benefits.

Issues

Weaknesses or other concerns in the governance structure of an entity identified during a financial audit, which are reported to them in a management letter.

Legislative time frame

The 12-week mandatory completion date for audited financial statements—that is, entities are required to provide financial statements to the Auditor-General within eight weeks of the balance date. The Auditor-General then has four weeks to complete the audit.

Liability

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

Machinery-of-government changes

Changes made to the administrative structure of government.

Management letter

A letter the auditor writes to the governing body, the audit committee and the management of an entity outlining issues identified during the financial audit.

Material agencies

Those entities that are collectively deemed to have a significant effect on the transactions and balances reported in the State's annual financial report.

Material error or adjustment

An error that may result in the omission or misstatement of information, which could influence the economic decision of users taken on the basis of the financial statements.

Materiality

Information is material if its omission, misstatement or non-disclosure has the potential to affect the economic decisions of users of the financial report, or the discharge of accountability by management or those charged with governance. The size, value and nature of the information and the circumstances of its omission or misstatement help in deciding how material it is.

Modified opinion

The auditor's expressed qualified opinion, adverse opinion or disclaimer of opinion.

Net result

The value that an entity has earned or lost over the stated period—usually a financial year—calculated by subtracting an entity's total expenses from its total revenue for that period.

Non-current asset

An asset that will be sold or realised later than 12 months after the end of the financial year being reported on, such as investments with a maturity date of two years or physical assets the entity holds for long-term use.

Non-current liability

A liability that will be settled later than 12 months after the end of the financial year being reported on, such as repayments on a five-year loan that are not due in the next 12 months.

Non-reciprocal transfers

Transfers in which an entity receives assets without directly giving equal value in exchange to the other party to the transfer.

Other comprehensive income

Revenues, expenses, gains and losses under Australian Accounting Standards that are excluded from net income on the income statement and are instead listed after net income.

Physical asset

A non-financial asset that is a tangible item an entity controls, and that will be used by the entity for more than 12 months to generate profit or provide services, such as building, equipment or land.

Present value

A current estimate of the present discounted value of the future net cash flows in the normal course of business.

Public financial corporation sector

Public sector corporations, including the government's central borrowing authorities, that provide financial services.

Public non-financial corporation sector

Public entities, including some that aim to cover most of their expenses from revenue, that provide market non-financial goods and services.

Qualified audit opinion

An opinion issued when the auditor concludes that an unqualified opinion cannot be expressed because of:

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

A qualified opinion is considered to be unqualified except for the effects of the matter that relates to the qualification.

Regulatory period

A statutory defined period that reflects all of the financial/operational activities that took place during that time.

Relevant measures and indicators

Measures and indicators an entity uses if they have a logical and consistent relationship to its objectives and are linked to the outcomes to be achieved.

Revaluation

The restatement of a value of non-current assets at a particular point in time.

Revenue

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

Risk

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

Risk register

A tool an entity uses to help identify, monitor and mitigate risks. The register may appear in the form of a plot graph or a table.

Self-funding entities

Entities that generate most of their revenue from their operations, rather than from government funding.

Specific purpose funds/specific purpose grants

Grant funding provided by the Commonwealth to the state government for a particular area or service.

Strategic plan

A document an entity provides to its staff and board to communicate its organisational goals, the actions needed to achieve those goals and other critical elements developed during the planning exercise.

Unmodified opinion

The audit opinion that the auditor expresses when concluding that the financial (or performance) report is prepared, in all material respects, in keeping with the applicable reporting framework.

Whole-of-life cost

The cost to buy or construct an asset, plus the cost of maintaining the asset over its life.

Auditor-General's reports tabled during 2017–18

Report title	Date tabled
V/Line Passenger Services (2017–18:1)	August 2017
Internal Audit Performance (2017–18:2)	August 2017
Effectively Planning for Population Growth (2017–18:3)	August 2017
Victorian Public Hospital Operating Theatre Efficiency (2017–18:4)	October 2017

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