
Annual Report 2017–18



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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

I am pleased to transmit, in accordance with section 7B of the *Audit Act 1994*, the annual report of the Victorian Auditor-General's Office for the year ended 30 June 2018 for presentation to Parliament.

Yours faithfully

A handwritten signature in black ink, appearing to read "Andrew Greaves", written over a faint, light blue circular stamp.

Andrew Greaves
Auditor-General

20 September 2018

Accountable officer's declaration

In accordance with the *Financial Management Act 1994*, I am pleased to present the Report of Operations for the Victorian Auditor-General's Office for the year ended 30 June 2018.

A handwritten signature in black ink, appearing to read "Andrew Greaves", written over a faint, light blue circular stamp.

Andrew Greaves
Auditor-General

20 September 2018

Foreword

Last year we focused on building VAGO's leadership team, getting the right structure in place and improving our external relationships. This year we have turned the lens inwards and assessed VAGO's own practices, particularly our use of technology and the way we spend our resources. We have also been quite deliberate in applying our audit findings to ourselves, leading to several important adjustments to our practices.

I am pleased with the considerable savings we've made by reducing internal red tape and reviewing our ICT systems—savings we then redirected to our audit work, providing more value to Victorians. We have adopted new technologies as we aim to be at the forefront of audit technology and methodology.

One major achievement this year has been the creation of a new vision and strategic plan—a clear direction and a map for how we will meet future challenges. This plan outlines our hopes and aspirations for VAGO. We have begun to better explore our full mandate, are trying to better measure our impact and are leading the way by becoming a more effective and efficient organisation. But as we've expanded our focus on using and sharing data, we are encountering emerging issues around data security and privacy. We are working with our stakeholders closely on this and taking a collaborative approach to resolving these matters.

I am most proud this year of the work, led by our staff, to develop and commit to a new set of organisational values, which reflect how we want to work with each other and our stakeholders.

Another important step that will improve our work is updating the *Audit Act 1994*. I was disappointed that the proposed Bill was not passed this year as the new powers and clarifications it contained would go a long way to modernising our practices. I'm optimistic that the new Parliament will see merit in the proposed legislative changes reflecting the considerable effort that my office and others put into its development. If these proposed changes are passed by the new Parliament, VAGO will be able to be more responsive and accountable, and ultimately provide a better service to Victorians.



Andrew Greaves
Auditor-General
20 September 2018

About this report

This report covers the activities of VAGO for the period 1 July 2017 to 30 June 2018. It is prepared in accordance with the *Audit Act 1994* and the *Financial Management Act 1994*, and complies with the requirements of relevant Australian Accounting Standards and Interpretations, Standing Directions and Financial Reporting Directions.

This year we have once again considered integrated reporting principles, such as materiality and value creation, when preparing this report. We also have introduced elements of transparency reporting used widely by the audit profession, to better inform Parliament and Victorians about our operations. Following the development of our new strategic plan, we have also considered our own strategic objectives when determining what is most important to include.

This report cost \$70 000 to produce.

Integrated reporting is strategic, future-focused reporting that explains how an organisation draws on the resources and relationships available to it, to create value over time.

Transparency reporting has its origins in the private sector and encourages disclosing more information about how an organisation operates and how this affects its performance.

Contents

1 Our organisation: About VAGO	9
1.1 Our new strategic plan	10
1.2 Our values	12
1.3 Our operating model	13
1.4 Proposed changes to our legislation	14
2 Our work: Relevance, influence and impact	15
2.1 Our 2017–18 work program	15
2.2 Our stakeholders	16
2.3 Our influence and impact	18
3 Our performance: Keeping VAGO accountable	21
3.1 Reporting on our performance	21
4 Our audit quality: Improving performance	27
4.1 Audit quality outside VAGO	27
4.2 Audit quality at VAGO	28
4.3 Improving our performance	31
5 Our people: Investing in the future	35
5.1 Our staff	36
5.2 Human resources improvements	38
5.3 Developing our new values	40
6 Our internal operations: Leading the public sector	41
6.1 Key developments	42
7 Our financial management	45
7.1 Current year financial review	45
7.2 Financial performance	46
7.3 Financial position	48
7.4 Cash flows	49
7.5 Other financial matters	49
7.6 Financial statements	54
Appendix A. Workforce profile	97
Appendix B. Workplace health and safety	99
Appendix C. General executive information	101
Appendix D. Audit and risk management	103
Appendix E. Environmental management	107
Appendix F. Policies and compliance	109
Appendix G. Additional information available on request	111
Appendix H. Disclosure index	113

1

Our organisation: About VAGO

The Auditor-General is an Independent Officer of the Victorian Parliament, appointed on behalf of Victorians to scrutinise how well government spends public money. VAGO helps hold the government to account through our financial and performance audits of public sector agencies and our resulting reports to Parliament.

Along with the Independent Broad-based Anti-corruption Commission, the Victorian Ombudsman and the Victorian Inspectorate, we are part of Victoria's modern integrity system, and we work to protect the public interest.

Two principal pieces of legislation govern what we do:

- The *Constitution Act 1975* establishes the role of the Auditor-General and gives the Auditor-General complete discretion in how the functions and powers of the role are performed and exercised.
- The *Audit Act 1994* establishes the Auditor-General's mandate and VAGO. It provides the legal basis for our powers and identifies the responsibilities of our role. In Section 1.4 we discuss the proposed changes to this Act.

We audit the financial reports of over 500 agencies each year, including government departments, statutory bodies, educational institutions, public hospitals, water corporations, insurers and local government councils. We also conduct performance audits that assess the effectiveness, efficiency, economy and compliance of government agencies, programs and services.

With our new follow-the-dollar powers, we are also able to audit non-government organisations that provide government services under contract. Our first follow-the-dollar audit, *Safety and Cost Effectiveness of Private Prisons*, was completed this year.

Our unique position and access to information across the entire public sector gives us insights into common issues and allows us to create more value for the agencies we audit. We not only provide recommendations on how to improve services and function more efficiently and effectively, we are now also providing useful information back to agencies through our data analytics dashboards.

1.1 Our new strategic plan

In late 2017, we launched our new strategic plan which articulates our intentions for VAGO's future. It maps out where we are heading, how we will work together to get there, and what success looks like. Our strategic plan, combined with our new values, detailed in Section 1.2, provides a solid foundation for change and will help us achieve our vision of creating better lives for Victorians through our insights and influence.



Increase our relevance

Our objectives

Be more relevant by delivering credible and authoritative reports and advice about things that matter and will make a difference

Our directions

Modernise our auditing methods

Update how we audit to reflect new and emerging technology-enabled practices

Explore our full mandate

Rebalance our audit programs to evenly cover efficiency and effectiveness, governance and compliance

Take a longer-term perspective

Analyse audit results through time to identify what works on complex and interconnecting issues



Grow our influence

Be valued for our independence and more influential because of the unique perspectives we provide

Strengthen our engagement

Build more productive relationships based on mutual respect and understanding of our respective roles and organisational contexts

Better leverage our access

Use our access to cross-government datasets to provide our clients with new insights they can use

Increase accessibility to our work

Develop new interactive channels with our stakeholders and open up access to our data to allow tailored use to meet specific needs



Invest in our people

Enable high performance by our people through a supportive culture, professional development and collaboration

Be clear about what we stand for

Demonstrate leadership and accountability in how we work and live our values and culture

Invest in excellence

Support our people to harness new and emerging technologies by developing their technical, analytical and people management capabilities

Get the mix right

Ensure our workforce composition builds our capability to position us to meet future business needs



Lead by example

Model exemplary performance in everything we do

Simplify our business

Eliminate unnecessary internal red tape, and streamline and increase automation of core business processes

Embrace new technology

Invest in cloud technology, implement the best software solutions to integrate our business systems, and share information to improve our practice

Better intelligence to drive decisions

Develop a comprehensive portfolio of service, product and project performance measures

What success looks like	Our progress towards success
<p>Our audit program effort is targeted across efficiency, effectiveness, economy and compliance</p> <p>The benefits realised by the public sector show an increased return on investment from our audit work</p>	<p>As part of our <i>Annual Plan 2018–19</i>, we have better balanced our performance audit program across efficiency, effectiveness, economy and compliance to ensure we explore our full mandate. We have included targeted reviews on efficiency, audits that analyse a thematic audit area over time and matters of good housekeeping and financial regularity that underpin service delivery.</p> <p>We have started foundational work to help us understand our influence, the impact we have through our audit work, and the benefits realised for audited agencies.</p>
<p>More of our performance audits originate from requests from Parliament, the public sector and the public</p> <p>Use of our reports and associated datasets in government service delivery and for parliamentary purposes has increased</p>	<p>We have started to review the source of our audit topics over the past year to establish a baseline against which we can measure our performance in the future.</p> <p>We have started foundational work to help us understand our influence, the impact we have through our audit work, and the benefits realised for audited agencies.</p>
<p>Employee engagement has increased</p> <p>We develop, attract, and retain the talent we need</p>	<p>Employee engagement is measured by the People Matter Survey run by the Victorian Public Sector Commission. In 2018 our score on the Employee Engagement Index was 66.</p> <p>In 2017–18, our staff attended around 25 hours of training on average, covering technical audit topics, professional requirements, management training and a range of other topics.</p>
<p>Workforce productivity has increased</p> <p>Our internal practices set the benchmark for public sector entities and other audit offices</p>	<p>From 2016–17 to 2017–18, we have increased the overall VAGO productivity rate (the per cent of available hours dedicated to audit work) from 55 per cent to 60 per cent.</p> <p>In 2017–18, we have started to apply the same lens that we apply to audited agencies to ourselves to ensure that we meet the same standard. Notable areas in which we have been forging the way include digital records and our move to cloud-based services and integrated applications.</p>

Note: Next year, as our first full year operating with the new strategic plan, we will report our progress more completely.

1.2 Our values

We launched our new values in May 2018. They were developed using a staff-led process, through focus groups and a committee. The values guide our behaviours, shape how we interact with our stakeholders and drive a more open and supportive culture.

We are an independent integrity organisation. We will stay true to our values and meet the high standards that Victoria's Parliament, public sector and community expect from us.

We show respect

- We celebrate our diversity.
- We seek out, listen to and understand each other's perspectives.
- We treat people with fairness and dignity, and protect confidentiality.

We collaborate

- We enjoy working together, and we support and trust each other.
- We learn and develop, and give constructive feedback.
- We share our knowledge and insights.

We are innovative

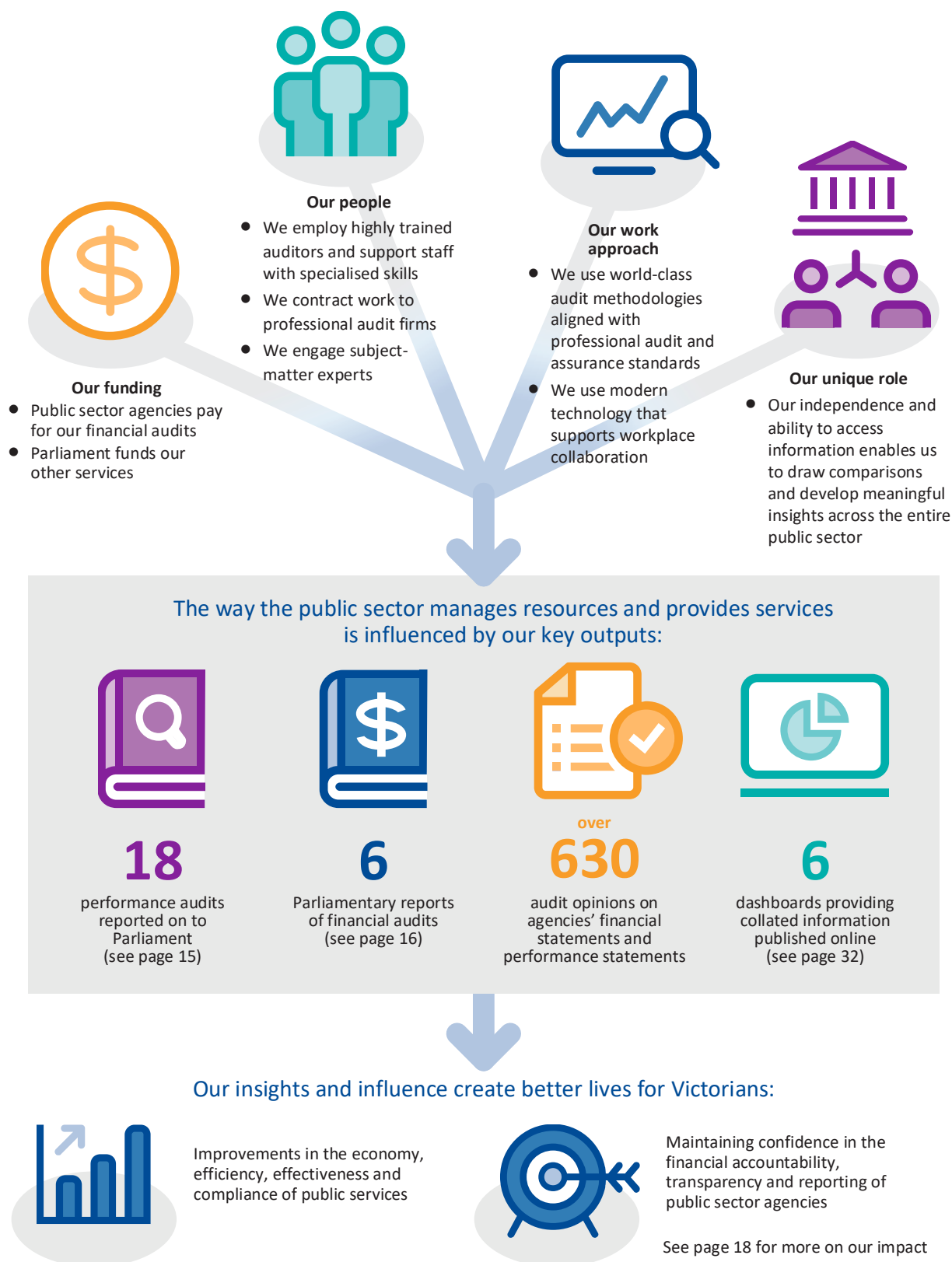
- We harness ideas to adapt and evolve.
- We have the courage to take informed risks and challenge the status quo.
- We embrace what we learn from the new things that we try.

We are accountable

- We empower each other.
- We meet our agreed commitments.
- We are responsible for, and transparent about, our decisions and actions.
- We make decisions that withstand scrutiny.

1.3 Our operating model

Our operating model underpins how we create value for Parliament and the Victorian community.



1.4 Proposed changes to our legislation

The Audit Amendment Bill 2017 was introduced into Parliament late in 2017 and proposed a substantial modernisation of the current *Audit Act 1994*. The changes, if they had passed, would have clarified how some of our existing powers operate and introduced some new powers.

One key amendment would have allowed us to conduct assurance reviews: short, focused reviews of a matter or issue. We would have been able to form a limited assurance opinion on whether the subject of the audit met the particular aspect of efficiency, economy or effectiveness we examined. These reviews would allow us to be more responsive to Parliamentarians as they would not be as time consuming as traditional performance audits. This amendment would also allow us to provide positive feedback about what agencies are doing, highlighting where they are performing well.

Another major new addition would have been the power to enter the premises of public bodies or associated entities to inspect the premises and any document or other thing. These access powers could be used only if the required information is not provided voluntarily and after we have issued an information-gathering notice to an agency.

More broadly, the changes proposed in the Bill would have clarified our powers to access privileged and other protected information, without the need to issue a coercive notice under section 11.

This is significant because our current legislation modifies our unrestricted access to such information by linking it to our coercive powers to obtain information under section 11 of the Act. We have always treated our coercive powers as a measure of last resort, as evidenced by the fact that they have rarely been used. Without the new provisions, we are concerned that the use of section 11 will need to become routine, especially as we roll out our data analytics strategy. This will place extra administrative burdens on us, the audited agencies and the Victorian Inspectorate, which monitors our use of our coercive powers.

The proposed amendments would also have provided us with the ability to better share the information we gather through our audit process with public bodies. This means, for example, we could share our data analytic dashboards more broadly.

At the time of publishing this annual report, the Bill had not been passed.

2

Our work: Relevance, influence and impact

We have been performing our key functions for many years—financial audits since 1851 and performance audits since the 1980s. The challenge for us is to remain relevant and current.

One new endeavour is making the most of the broad and deep access we have to public sector information as part of our function and powers. At the same time we've maintained our ongoing focus on building productive relationships with our stakeholders. To have real influence on public sector performance, and ultimately impact the lives of Victorians, we must make sure our work is targeted in the right areas.

2.1 Our 2017–18 work program

This year we tabled 18 performance audits. Twelve of these were listed in our *Annual Plan 2017–18*, two were follow-up audits, and four were from our *Annual Plan 2016–17*. We deferred one audit to 2018–19 and cancelled one audit.

Figure 2A
2017–18 performance audit reports tabled by sector

Central Agencies and Whole of Government
<i>Effectively Planning for Population Growth*</i>
<i>Fraud and Corruption Control</i>
<i>ICT Disaster Recovery Planning*</i>
<i>Internal Audit Performance*</i>
<i>The Victorian Government ICT Dashboard</i>
Environment and Primary Industries
<i>Improving Victoria's Air Quality</i>
<i>Follow Up of Selected 2012–13 and 2013–14 Performance Audits:</i>
<ul style="list-style-type: none"><i>Managing Freshwater Fisheries</i><i>Managing Victoria's Native Forest Timber Resources</i>
<i>Protecting Victoria's Coastal Assets</i>

Figure 2A
2017–18 performance audit reports tabled by sector—*continued*

Health and Human Services
<i>Community Health Program (\$)</i>
<i>Victorian Public Hospital Operating Theatre Efficiency</i>
Infrastructure and Transport
<i>Assessing Benefits from the Regional Rail Link Project</i>
<i>Managing the Level Crossing Removal Program</i>
<i>V/Line Passenger Services*</i>
Justice and Community Safety
<i>Maintaining the Mental Health of Child Protection Practitioners</i>
<i>Safety and Cost Effectiveness of Private Prisons (\$)</i>
Local Government
<i>Local Government and Economic Development</i>
<i>Managing Surplus Government Land</i>

Key: * indicates audits from our *Annual Plan 2016–17*.
 (\$) indicates follow-the-dollar audits.

Of the remaining nine audits that were not tabled during the year as planned, three were delayed due to significant challenges we faced in accessing essential data, three due to the complexity and sensitivity of the subject matter, and three due to internal resourcing challenges. Seven of these nine audits are scheduled to table in the first quarter of 2018–19.

We are actively reviewing our performance audit resourcing strategy and project management approaches, to improve the timeliness of reporting.

In 2017–18, we tabled six reports on the results of our financial audits as detailed in our *Annual Plan 2017–18*.

Figure 2B
2017–18 reports tabled on the results of financial audits

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

Results of 2016–17 Audits: Local Government

Results of 2016–17 Audits: Public Hospitals

Results of 2016–17 Audits: Water Entities

Results of 2017 Audits: Technical and Further Education Institutes

Results of 2017 Audits: Universities

2.2 Our stakeholders

At VAGO, we rely on our reputation to influence the public sector to improve its administration and performance. As we have no executive powers to implement or require action on our recommendations, it is vital that we have relevant, high-quality, evidence-based products and productive relationships with all our stakeholders. Our primary stakeholders are the Victorian Parliament and the public sector agencies we audit.

This year we reviewed our stakeholder engagement framework and developed a strategy to complement our new strategic plan. Our focus is on improving the consistency of the experience of our stakeholders, and being clear about what we offer them. In the future, we'll be developing new approaches to working with our stakeholders to meet our common goal of continuously improving public services and programs.

We know that our work is valued when we see our reports being used by our Parliamentary stakeholders.

Figure 2C

Parliamentary committees using our reports

In February 2018, the Economy and Infrastructure Committee's *Fourth report into infrastructure projects* referenced *High Value High Risk 2016–17: Delivering HVHR Projects* (2016), *Managing the Level Crossing Removal Program* (2017) and *Public Participation in Government Decision-Making* (2015).

In March 2018, the Environment, Natural Resources and Regional Development Committee's report *Inquiry into the sustainability and operational challenges of Victoria's rural and regional councils* echoed our concerns about many regional councils' financial positions. The report heavily referenced our financial audits in the sector, as well as our 2014 reports *Asset Management and Maintenance by Councils* and *Shared Services in Local Government*.

Also in March 2018, the Law Reform, Road and Community Safety Committee's report *Inquiry into drug law reform* referred to *Prevention and Management of Drug Use in Prisons* (2013) and a specific recommendation we made to the Department of Justice and Regulation.

In May 2018, the Economy and Infrastructure Committee's *Inquiry into electric vehicles* referenced a figure from our report *Managing the Environmental Impacts of Transport* (2014) about passenger vehicles and greenhouse gas emissions.

In June 2018, the Legal and Social Issues Committee released its *Inquiry into the Public Housing Renewal Program*. The report echoed the findings and concerns of our audits on public housing, particularly 2017's *Managing Victoria's Public Housing*. The committee noted that 'many of the issues raised in the 2012 and 2017 audits were consistent with the evidence provided to this Inquiry. The Committee reiterates the need for the Victorian Government to implement these recommendations to improve the strategic direction of public housing in Victoria.'

To ensure we are sharing knowledge and can be at the forefront of developments in our profession, we maintain strong working relationships with educational and professional organisations, and with our audit, integrity and public sector peers—both domestic and overseas.

In addition to working directly with our stakeholders on specific audit topics, our staff also take the results of our audits to audiences that have a role in influencing or implementing change.

This year the Auditor-General presented to a range of peer and public sector forums on:

- the pillars of integrity and our role in Victoria's integrity system
- how the public service can govern well by implementing key measures to ensure efficient and effective operations, reliable financial reporting and compliance—the so-called 'three lines of defence'
- the relevance of General Purpose Financial Reporting statements to not-for-profit public sector entities—or public-benefit entities
- specific observations about particular sectors.

Section 4.2 details the stakeholder feedback we seek to improve our work.

2.3 Our influence and impact

The work we do at VAGO has the potential to make a real difference to the lives of Victorians. Each of our reports to Parliament, and particularly our recommendations, influence the public sector to improve the way it delivers services and programs. We strive for this influence to lead to a lasting positive impact on the Victorian community.

Some audits have an immediate effect, but sometimes it takes longer for our recommendations to result in meaningful improvement. Some of the ways in which our audits have influenced change this year are illustrated here.

September 2017

Making emergency departments safer

The government announced the roll out of behavioural assessment rooms in emergency departments in 16 Victorian hospitals. This is a better practice example of an environmental design control, highlighted in our report.

May 2015

Occupational Violence Against Healthcare Workers tables in Parliament.

June 2018

Community health taskforce announced

Two days before our report *Community Health Program* tabled in Parliament, the government announced a new expert taskforce aimed at identifying ways to strengthen Victoria's community health sector. There was also \$292 million allocated to community health care in the 2018–19 Budget. Our audit found that the Department of Health and Human Services was missing an important opportunity to take a more strategic approach to providing primary care services to disadvantaged Victorians through the Community Health Program. We made seven recommendations to the department, focused on reviewing the funding amount and allocation, and improving the program's performance framework.

The taskforce will include members from community health services, as well as representatives from the Victorian Healthcare Association, other key organisations and service users.

June 2018
Community Health Program tables in Parliament.

September 2014

Management and Oversight of the Caulfield Racecourse Reserve tables, recommending that alternative management arrangements are explored for the Caulfield Racecourse Reserve so that it can better meet the racing and community purposes of the Crown grant.

November 2017

Better management of Caulfield Racecourse

Parliament passed the *Caulfield Racecourse Reserve Act 2017* that established a new governing body to manage the Caulfield Racecourse Reserve.

November 2012

Prison Capacity Planning tables and identifies that a lack of accommodation and increasing number of prisoners contributed to the very high number of prisoners in police cells.

March 2018

Increased capacity at police stations

Victoria Police conducted a statewide audit to ensure police gaol and court cells were operating at the correct capacity. This resulted in Bendigo Police Station increasing its capacity by more than 30 per cent, and other stations in Geelong, Heidelberg, Mill Park, Moorabbin, Broadmeadows and Sunshine also increasing their capacity.

August 2017

Improving emergency response ICT systems

It is announced that police and emergency services in regional Victoria will have access to the state's digital radio network from 2018, eliminating key black spots and increasing security and audio clarity.

October 2014

Emergency Response ICT Systems tables in Parliament.

April 2018

A new framework for protecting vulnerable children

Parliament passed the *Children Legislation Amendment (Information Sharing) Act 2018* which aims to protect vulnerable children by simplifying and improving information sharing arrangements between trusted professional entities, such as maternal and child health, hospitals and schools. The Child Link register will enable services to identify and respond to any risk factors early and collaborate to provide integrated services to a child. The Minister for Families and Children said Child Link responded directly to our 2011 report as well as findings from three other VAGO reports from the past decade.

May 2011

Early Childhood Development Services: Access and Quality tables in Parliament.

October 2017

Funding for regional roads

The 2017–18 Budget contained \$305.5 million for regional road upgrades in 2017–18, and a further \$147.9 million in following years. The Public Accounts and Estimates Committee's *Report on the 2017–18 Budget Estimates* has a direct reference to the funding allocation being linked to our report. The committee also recommended to the Department of Economic Development, Jobs, Transport and Resources, and VicRoads that they develop road maintenance performance measures that fully respond to the recommendations made in our report.

December 2017

VicRoads' digital dashboard

VicRoads unveiled a new safety tool for the state's 20 most dangerous country roads, with a digital dashboard tracking progress on road upgrades, pothole repairs and reporting on local accidents. It also announced a pilot program on high-speed intersections in the north-east, where new electronic speed signs will reduce the speed limit by 30 km/hr when a car is approaching on the side road.

June 2017

Maintaining State-Controlled Roadways tables in Parliament.

October 2017

Discussion paper released

The Department of Environment, Land, Water and Planning's discussion paper on reforming the Victoria Planning Provisions proposed changes that would address recommendations and issues identified in our report, including:

- simplifying the planning policy framework and making planning schemes more user friendly
- better supporting local government planners to draft planning scheme amendments
- introducing simpler, risk-based assessment pathways that are proportionate to the planning issue being assessed.

March 2017

Managing Victoria's Planning System for Land Use and Development tables in Parliament.

May 2018

Regional Roads Victoria

The 2018–19 Budget allocated \$941 million to fix hundreds of regional roads. Regional Roads Victoria, a new division of VicRoads, will oversee a \$333 million boost to road maintenance. A \$100 million Fixing Country Roads fund will pay councils to fix their roads. Our report found that years of declining spending had let country roads become a growing risk to public safety.

February 2017

Regulating Gambling and Liquor tables. It highlights that decisions on inspections in regional areas are not based on evidence and are influenced by budget concerns. It also mentions that the Victorian Commission for Gaming and Liquor Regulation was seeking funding to fulfil the expectation to develop regional hubs.

January 2018

Reforms implemented

The first tranche of these reforms aim to simplify, clarify and update the planning provisions and definitions, and introduce ongoing monitoring of the provisions.

September 2017

Bigger Victorian Commission for Gaming and Liquor Regulation presence in regional Victoria

The government announced additional funding of \$11.3 million over four years for the Victorian Commission for Gaming and Liquor Regulation in the 2017–18 State Budget to increase its presence in regional Victoria.

3

Our performance: Keeping VAGO accountable

3.1 Reporting on our performance

The products and services we deliver are organised into two Parliamentary output groups in Budget Paper 3. Output Group 1 covers Parliamentary reports and services, and Output Group 2 covers audit reports on financial and performance statements. We have performance measures and targets for quantity, quality, timeliness and cost, across both our audit output groups.

Last year we revised our Budget Paper 3 measures to better reflect our performance, showing whether we are meeting our objectives, not just counting our outputs. These changes are reflected in this year's report.

Figure 3A

Performance against targets for Output Group 1—Parliamentary reports and services

Performance measures	Unit of measure	Target	Actual	Per cent variation	Result
Quantity					
Average cost of Parliamentary reports	(\$ thousand)	499	484	-3	✓
Quality					
Percentage of performance audit recommendations accepted which are reported as implemented by audited agencies	(per cent)	80	80	0	✓
Overall level of external satisfaction with audit reports and services—Parliamentarians	(per cent)	85	88	4	✓

Figure 3A

Performance against targets for Output Group 1—Parliamentary reports and services—*continued*

Performance measures	Unit of measure	Target	Actual	Per cent variation	Result
Timeliness					
Average duration taken to finalise responses to inquiries from Members of Parliament	(days)	20	15	-25	✓
Average duration taken to produce performance audit Parliamentary reports	(months)	≤8	10.5	31	□
Average duration taken to produce financial audit Parliamentary reports after balance date	(months)	≤5	4.8	–	✓
Cost					
Total output cost	(\$ million)	15.5	15.5	0	✓

Key: ✓ Target achieved or exceeded. ○ Target not achieved—within 5 per cent variation. □ Target not achieved—exceeds 5 per cent variation.

Quantity

Average cost of Parliamentary reports

This year we began reporting on the average cost of our Parliamentary reports, and we met our target for the reports tabled this year. We have increased our target for 2018–19 to cover salary and Consumer Price Index increases, new accounting standards coming into effect in 2018–19 and improved data analytics.

Quality

Performance audit recommendations which are reported as implemented by audited agencies

This is a new performance measure to track whether agencies are implementing the recommendations we've made and they accepted. This year we followed up with the agencies that were the subject of performance audits tabled in 2014–15 and 2015–16. Our surveys show that 80 per cent of the accepted recommendations have been implemented, which is in line with our target.

Overall level of satisfaction

We survey Parliamentarians each year to find out how satisfied they are with our reports and services. This year 88 per cent of Parliamentarians were satisfied or very satisfied with our work. This was down from 93 per cent last year, but is broadly consistent with the 2016 result of 86 per cent.

Every year we prepare a range of performance data for a benchmarking exercise run by the Australasian Council of Auditors-General (ACAG), which is discussed on page 27.

Our 2017–18 benchmarking data shows that 44 per cent of all paid hours worked by all VAGO staff were charged to audit work.

This proportion increases to 48 per cent when we include the hours spent developing our Annual Plan, which is required to be tabled in Parliament. This is also the average result for all states and territories.

Timeliness

Responses to inquiries

We receive inquiries from Members of Parliament on a range of issues. For 2017–18, we have a new measure on responding to inquiries from Members of Parliament, and we achieved an average response time of 15 days which exceeds our target of 20 days. This is due to the relatively small number of straightforward inquiries received.

For 2018–19, we have changed the target to be 20 days or less.

Time to produce performance audit reports

This is another new measure for 2017–18. We took longer on average than our target of 8.5 months to produce performance audit reports. We exceeded this target because it took longer than expected to receive data from agencies, and there were technical delays in extracting and cleaning data for analysis. Our focus on audit quality also meant we gathered more audit evidence when we found issues, and we spent more time reviewing draft reports with agencies. For 2018–19, we have increased the target to 9 months to reflect the audits in our *Annual Plan 2018–19*.

Time to produce financial audit Parliamentary reports after balance date

The time taken to produce financial audit Parliamentary reports is on target.

Cost

We met our cost target this year, spending \$15.5 million to deliver our Parliamentary reports and services.

Figure 3B

Performance against targets for Output Group 2—Audit reports on financial and performance statements

Performance measures	Unit of measure	Target	Actual	Per cent variation	Result
Quantity					
Average cost of audit opinions issued on performance statements	(\$ thousand)	5	5	0	✓
Average cost of audit opinions issued on the financial statements of agencies	(\$ thousand)	50.0	48.2	-4	✓
Quality					
External/peer reviews finding no material departures from professional and regulatory standards	(per cent)	100	59	-41	□
Proportion of agencies disclosing prior period material errors in financial statements	(per cent)	≤5	1	—	✓

Figure 3B

Performance against targets for Output Group 2—Audit reports on financial statements—*continued*

Performance measures	Unit of measure	Target	Actual	Per cent variation	Result
Timeliness					
Audit opinions issued within statutory deadlines	(per cent)	98	98	0	✓
Management letters to agencies issued within established time frames	(per cent)	90	81	-10	□
Cost					
Total output cost	(\$ million)	28.4	27.6	-3	✓

Key: ✓ Target achieved or exceeded. ○ Target not achieved—within 5 per cent variation. □ Target not achieved—exceeds 5 per cent variation.

ACAG benchmarking data shows that in 2017–18 our audits cost 27 cents for every \$1 000 in public sector transactions, down from 30 cents in 2016–17. The average cost for all states and territories was 35 cents.

Quantity

Cost of audit opinions—performance and financial

This year, for the first time, we have reported on the average cost of the audit opinions issued on the performance and financial statements of agencies. This is a direct measure of our efficiency measure because it relates the number of opinions issued to their cost. We met both these targets in 2017–18. The targets for both measures for 2018–19 have increased to cover salary and Consumer Price Index increases, new accounting standards coming into effect in 2018–19 and improved data analytics.

Quality

External/peer reviews finding no material departures from professional and regulatory standards

This audit quality measure is obtained through post audit quality reviews of a targeted selection of our financial audits in accordance with our three-year rolling review program. The measure is intended to reflect our level of compliance with the requirements of the applicable Australian Auditing Standards, Australian Accounting Standards and Accounting Professional and Ethical Standards.

While our target is 100 per cent compliance, this is rarely achieved in practice, either in the public or the private sector. One reason for this is that we adopt a conservative approach to our assessments.

For example, if a part of our audit work is not documented, our presumption is that the work has not been performed (in the absence of evidence to the contrary). This is the same approach applied by other audit regulators and by most firms in their internal quality review programs.

But more importantly, while we examine a number of key audit areas in each file reviewed, if we find issues in any one area we rate that entire file as having not met standards. In comparison, the Australian Securities and Investments Commission (ASIC) measures just the percentage of key audit areas within inspected files that are noncompliant, as opposed to complete audit files, and reports noncompliance in the range of 19–25 per cent.

We did not meet our target: 41 per cent of our targeted sample of reviewed audit files were found to have material departures. Our findings do not necessarily mean there are material misstatements in the overall financial reports of these entities. Rather, in our view, we did not demonstrate a sufficient basis to form and issue our opinions.

This result is not necessarily representative of the quality of all financial audit engagements conducted, as the selection of audit files was not statistically random. Factors such as prior quality findings, coverage across sectors and our contracted audit service provider firms influenced the file selection process.

We will look to amend the measure and target in 2019–20 to align with the more relevant ASIC measure and industry benchmarks.

Proportion of agencies disclosing prior period material errors in financial statements

This new quality measure is the proportion of agencies disclosing prior period material errors in financial statements. This means that a significant financial statement error was identified, rectified and disclosed in the current-year financial statements by the agency which had not been previously identified by us. We are pleased to have met this new target.

Timeliness

Audit opinions issued within statutory deadlines

This year, we met our target for issuing audit opinions within statutory deadlines.

Management letters issued within established time frames

We did not meet our target for issuing management letters within the established time frame with 81 per cent issued in 2017–18, short of our target of 90 per cent. Last year, government entities and VAGO received very late notice from government of new shortened time lines required for completing audits and tabling annual reports across the public sector. Other audit matters, such as responding in a timely way to our draft management letters, became a secondary priority for agencies in some cases. We also lacked sufficient resources during the compressed time frame to chase down late responders.

Almost all the control gaps identified in the draft letters were still discussed during the audit close-out process with management and audit committees.

Cost

The total cost for this output group was within budget, at \$27.6 million.

4

Our audit quality: Improving performance

4.1 Audit quality outside VAGO

We aim to be a leader in public sector auditing, working also to improve the practice of our profession.

Engagement with the Australian Accounting Standards Board

This year, we increased our engagement with the Australian Accounting Standards Board (AASB), with the aim of ensuring that public sector reporting is considered more consciously in their deliberations and decisions.

VAGO staff were on the AASB Insurance Project Advisory Panel and the AASB Fair Value Project Advisory Panel. We also attended and contributed to the AASB Roundtable: Options for replacing Special Purpose Financial Statements.

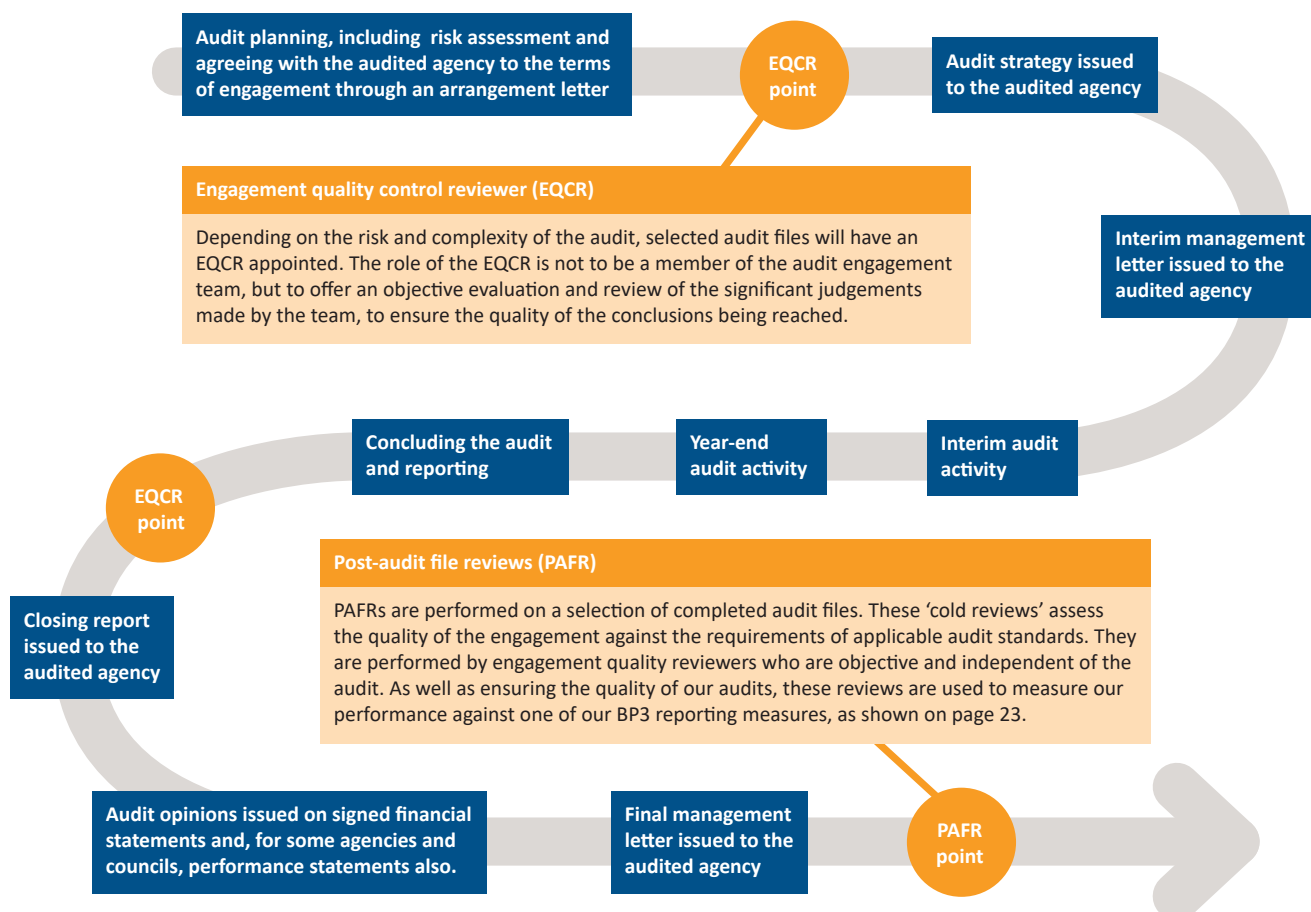
Engagement with the Australasian Council of Auditors-General

ACAG is an association established by Auditors-General from around Australia, New Zealand and the Pacific nations, to share information about our unique public auditing role. Our participation in ACAG ensures that Victorians benefit from the most up-to-date public auditing approaches and knowledge.

Currently the Auditor-General is the chair of ACAG's Financial Reporting and Accounting Committee. During the year we streamlined ACAG's process for making submissions to accounting standard regulatory bodies.

4.2 Audit quality at VAGO

To continue providing value to the Victorian public through our insights we must maintain our high standards. This diagram illustrates our financial audit quality assurance and continuous improvement processes.



Some financial audit quality assurance processes do not occur at specific times during an audit, and may not occur for all audits:

Technical panel

The technical panel, which consists of the Auditor-General and the Assistant Auditors-General of the financial audit and technical audit teams, maintains and considers a register of significant accounting matters. The register of significant matters and the panel provide a forum for discussing and considering technical issues facing the public sector and audit teams.

Audit report modification panel

A modified audit opinion is one that includes, for example, key audit matters, an emphasis of matter paragraph, a qualification or a disclaimer. Issuing a modified opinion requires the approval of the Auditor-General. The audit report modification panel considers and recommends whether these modifications should be made. It consists of the Assistant Auditor-General of financial audit and an independent member of the technical audit team.

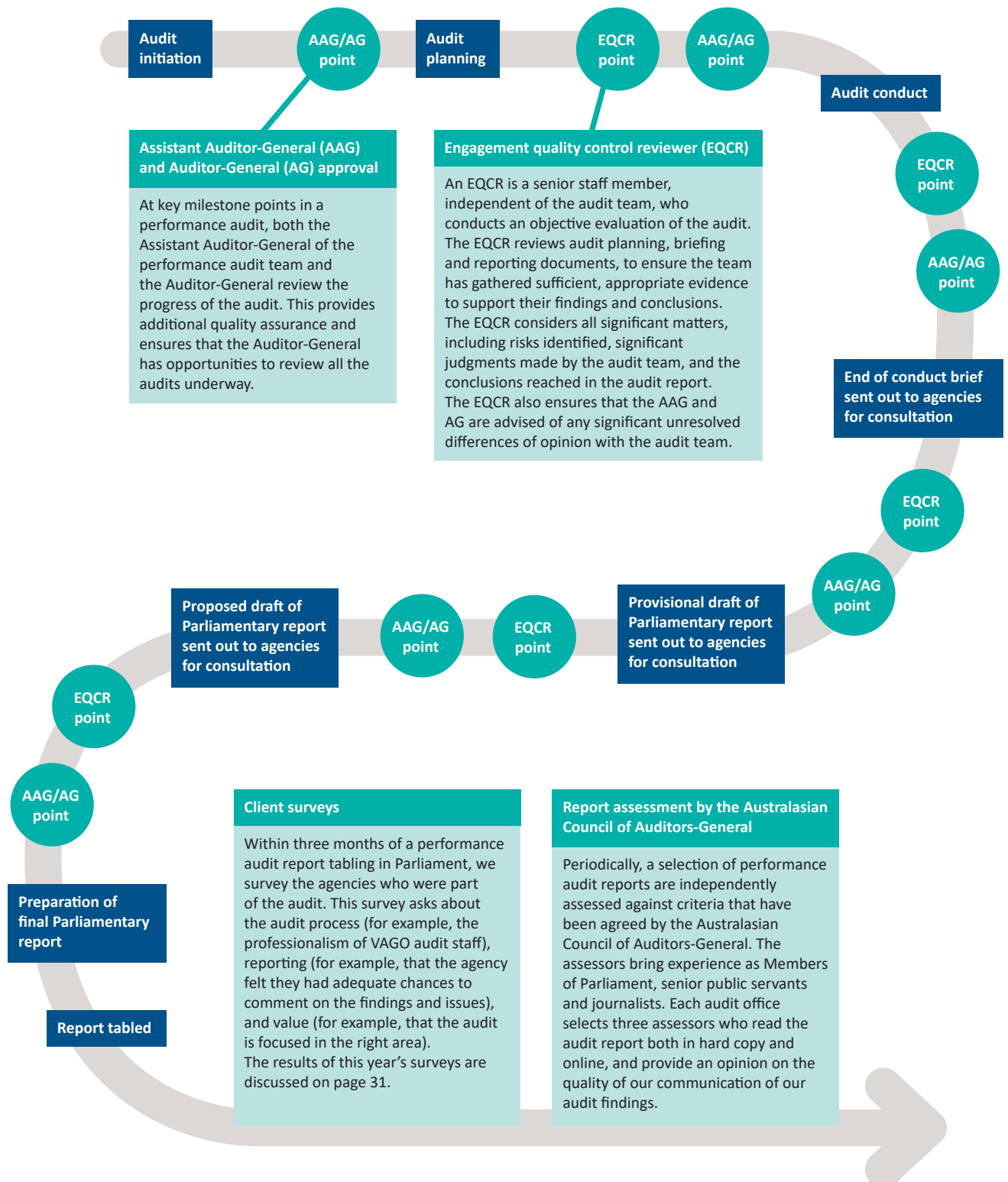
Technical consultation

In our technical audit team we employ subject-matter experts. At any time during an audit, if the audit team requires impartial advice on an audit or financial reporting matter, they can consult with our technical audit subject-matter experts.

Client surveys

Each year, we survey our clients, alternating between chief financial officers and audit committee chairs, to measure our performance against their expectations. The results of this year's surveys are discussed on page 30.

This diagram illustrates our rigorous framework of similar processes for our performance audits.



Results of our recent quality surveys

Parliamentarians survey

We survey Parliamentarians every year. This year's results were positive overall, and broadly similar to our results over the past few years. Parliamentarians assessed the Auditor-General's reports and services as follows:

Provide valuable information on public sector performance 93% down from 98%	Help improve public sector administration 93% up from 89%	Performance audits address key areas of interest 62% up from 54%	Performance audits address issues of significance 68% up from 66%
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Audit committee chair survey

We last surveyed the chairs of audit committees in 2014–15. This year, 75 per cent of chairs believed that VAGO adds value by helping public sector entities improve their performance (slightly up from 70 per cent).

A number of chairs made positive comments about improvements such as visibility, access and communication, and a stronger strategic focus. The changes were considered to be 'welcome', 'refreshing' and 'encouraged'.

Ninety per cent of chairs agreed that we are targeting the right audit topics (up from 64 per cent) and 85 per cent thought that we are addressing topics at the right time (up from 54 per cent). Some chairs commented that they are looking forward to seeing the impacts of our data analytics activities.

Chief financial officer survey

We conduct surveys of chief financial officers every two years, in two rounds, based on their organisation's financial year end. This year's results generally show a marked improvement on those from 2015–16.

Professional conduct 98% up from 93%	Professional skills and knowledge 96% up from 91%	Understanding of the organisation 90% up from 84%	Effective communication 89% up from 80%
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Despite the improved results, there were some concerns about staff continuity, inadequate staffing, not enough time being allocated for audits, audit fees and excessive requests for information.

Chief financial officers valued the assurance provided by our financial statement audits (94 per cent, up from 91 per cent) and valued our recommendations for improvements (90 per cent, up from 87 per cent).

Performance audit surveys

Every year we survey the agencies involved in our performance audits about our process, reporting and value.

Process	Reporting	Value
<p>Positives: the quality of the audit process, the professionalism and engagement of audit teams, sufficient opportunity to comment on issues prior to receiving a draft report.</p> <p>For improvement: continuity of audit staff.</p>	<p>Positives: there were adequate opportunities to make comments, tabled reports were accurate and clearly communicated the issues.</p> <p>For improvement: the relevance and practicality of our recommendations, the timing allowed to respond to report drafts.</p>	<p>Positives: audits were generally focused on the right areas.</p> <p>For improvement: the depth and scope of audit recommendations, being clearer about the risk or issue driving the audit, providing best practice standards and benchmarks.</p>

4.3 Improving our performance

Data analytics

This year, we have significantly expanded our data analytics capability. We developed a strategy for integrating data analytics into our audit work to support traditional auditing methods. To help public sector agencies see the power of the data that they hold, we have begun creating and providing dashboards to agencies.

One advantage of our dashboards is the ability to add data year on year and build up a complete picture of how a program or agency is performing. This will allow us, and agencies, to return to the data we've collated over time which will reveal long-term trends and better inform their planning and decision making.

The first phase of our strategy focuses on our data analytics staff building dashboards and other analyses and helping source the most appropriate datasets for our performance audits. Staff in our performance audit areas are being trained in how to use data analytics tools, which increases their skills and lifts the capability of the whole organisation.

We have begun accessing datasets from non-government sources to complement our own work, and have been piloting the use of basic text mining tools to assist with annual planning.

For our financial audits, we are streamlining the collection of data and building standardised dashboards that our financial audit teams can use and build on each year.

In the future, our staff will be skilled enough to build their own dashboards. We will expand our use of external datasets and introduce predictive modelling methods. We will also progress to using more sophisticated text mining tools for analysing unstructured data.

Financial audit

During the year, we developed a multi-year strategy to embed data analytics into our financial audit practices. We will be applying data analytic tools and techniques across many financial audits in the future, which will improve our audit quality and efficiency. We have been working to streamline the collection of financial data. We use this data to improve our understanding of our financial audit clients' business risks, to assess their internal controls, and to improve the focus of our audit testing.

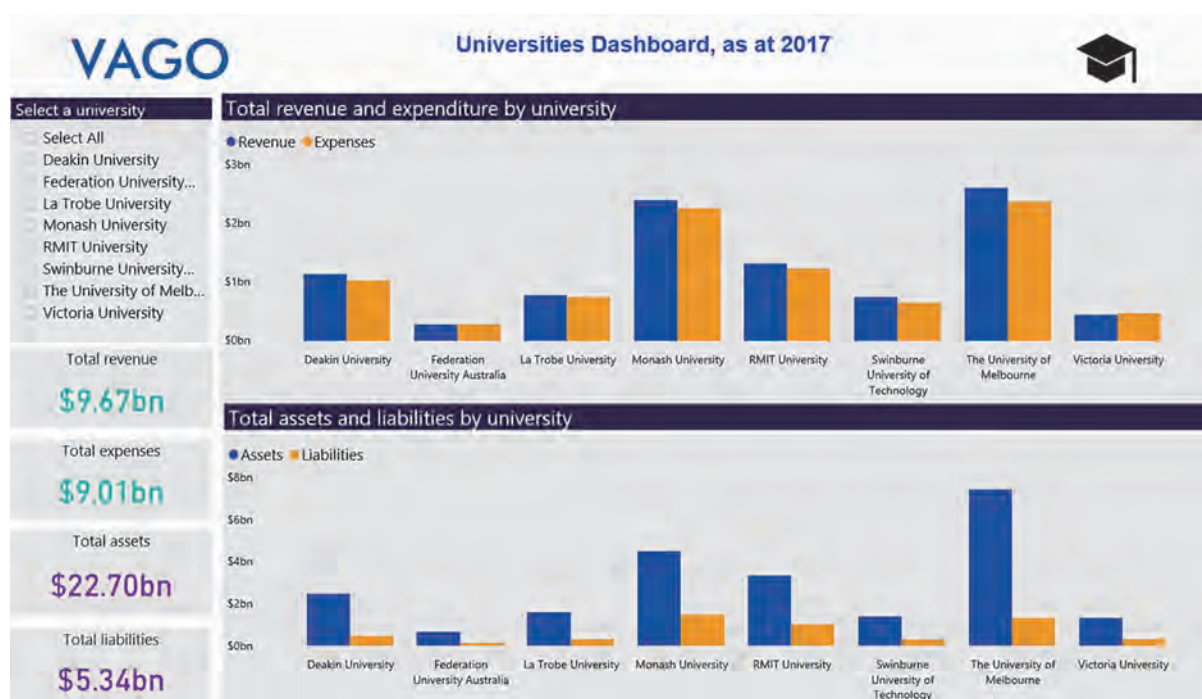
Although we are still early in our journey, we have engaged with most of the entities identified for phase 1 of the strategy. We've gathered expenditure and payroll data from several of our larger audit clients and have begun building a customised analytics solution that will standardise their data into a uniform format for analysis. This will allow us to:

- identify key audit risks and tailor our approaches to address them
- effectively sample and select data
- gain better insights and provide better business intelligence back to our financial audit clients.

Our first four dashboards were published in November 2017, along with our report *Results of 2016–17 Audits: Public Hospitals*. These dashboards are interactive visualisation tools that summarise the financial statement data of all Victorian hospitals. They allow stakeholders and the general public to refine and compare a huge range of financial information.

Visit audit.vic.gov.au to access an interactive version of this dashboard

In May 2018, we published similar dashboards to accompany our reports on Technical and Further Education (TAFE) institutes and universities.



These are examples of ways we are increasing the accessibility of our work through new interactive channels. Over time, we will add new content and insights, and will improve the usability of our dashboards by seeking feedback from our stakeholders.

Performance audit

We have been working to create a strategic three-year plan to successfully execute data-driven audits—an innovative way of ensuring our audits are based on persuasive, objective evidence. Some of the key steps we are taking to bring together our data analytics and performance audit capabilities include:

- collaborating up to six months before an audit begins, to kick-start the audit's data strategy
- planning together to more effectively use data analytics
- co-sourcing rather than outsourcing when using external analytics services to ensure the skills and knowledge are transferred to VAGO.

Fifteen performance audit projects have been supported by data analytics in various ways, from assuring the quality of the data used for analytic work to creating interactive dashboards.

One dashboard that has been particularly valuable was created as part of our audit of *Victorian Public Hospital Operating Theatre Efficiency*. For this audit, we compiled a dataset using data from 23 health services. We created a dashboard to analyse health system performance and benchmark data in multiple ways not previously done in Victoria. The dashboard can be used to analyse the efficiency of operating theatres within and between health services and hospitals.

Creating dashboards and datasets not previously compiled and providing these back to agencies is an area of future growth for us. This will be a key way to help agencies make the most of their own information, and to achieve our strategic objective of being more influential by providing our clients with new insights they can use.

Audit mandate and process

Performance audit

This year, we tabled our first audit using our new follow-the-dollar powers, *Safety and Cost Effectiveness of Private Prisons*. These powers allow us to audit private and non-government organisations that are contracted to provide public services. This audit published our analysis of a large amount of data about how private prisons operate that was not previously available to the public. We found that private prisons are cheaper to run than publicly operated prisons, and that they largely meet their contract service and performance requirements.

We established a new Performance Audit Practice Governance Committee this year to ensure that performance audit practices are up to date, streamlined and consistent. The committee, made up of staff from across VAGO, aims to implement improvements and changes arising from audit debriefs, stakeholder feedback and internal staff suggestions. It considers technology tools, policy, guidance and manuals, training materials, templates and practice statements.

We have improved the quality of our planning by adopting a more risk-based approach. We have improved our understanding of agencies and audit subject matter to identify any risks and better tailor our audits. This approach is reflected in our updated methodology and our recent training.

Part of improving our understanding of agencies is working with them earlier in the audit process. On two recent audits, *Effectively Planning for Population Growth* and *Community Health Program*, we brought agencies together to discuss our recommendations jointly and earlier than usual. This has resulted in recommendations that are more useful and practical for agencies.

This has also led to better working relationships with departments. In our recent surveys, agencies rated the quality of our audit process highly, particularly the professionalism, skills and knowledge of our staff, and their ability to communicate effectively.

Financial audit

It has been 12 months since the new standard, ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*, became effective. It requires us to include a description of key audit matters in our reports. These are matters that we determine to be the most significant. We must include a brief description, an explanation of why we consider them to be key audit matters and details of what we did to address them.

We have voluntarily adopted this new standard as we believe it will enhance the value of our auditor's report by providing greater transparency and insight to our audit process. In the *Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2016–17*, tabled in November 2017, we disclosed key audit matters for the first time. We continued a staged implementation of this standard for other entities during 2017–18.

We have been working with entities to help them adopt streamlined reporting. The purpose of streamlined reporting is to make reports easier to understand. These reports still comply with all relevant standards and legislation, but remove any information that is immaterial. They are easier to read and more user-friendly than traditional financial reports. Both the local government and university sectors have adopted streamlined reporting, with positive results.

We dedicated sustained effort at all levels to working with audit clients and other key stakeholders to improve the level of service we provide, including in our written communications. For example, we changed the look, feel and structure of key documents provided to stakeholders like audit committees to help them to focus on the most important insights we have to offer.

5

Our people: Investing in the future

This year, we have focused on modernising our work and building a new culture that supports our strategic objectives, following a time of significant structural and physical change.

One of our new strategic objectives is to invest in our people. We want to enable high performance by providing a supportive culture, encouraging professional development and collaborating. We have invested heavily in the core skills of our people, most notably focusing on our managers.

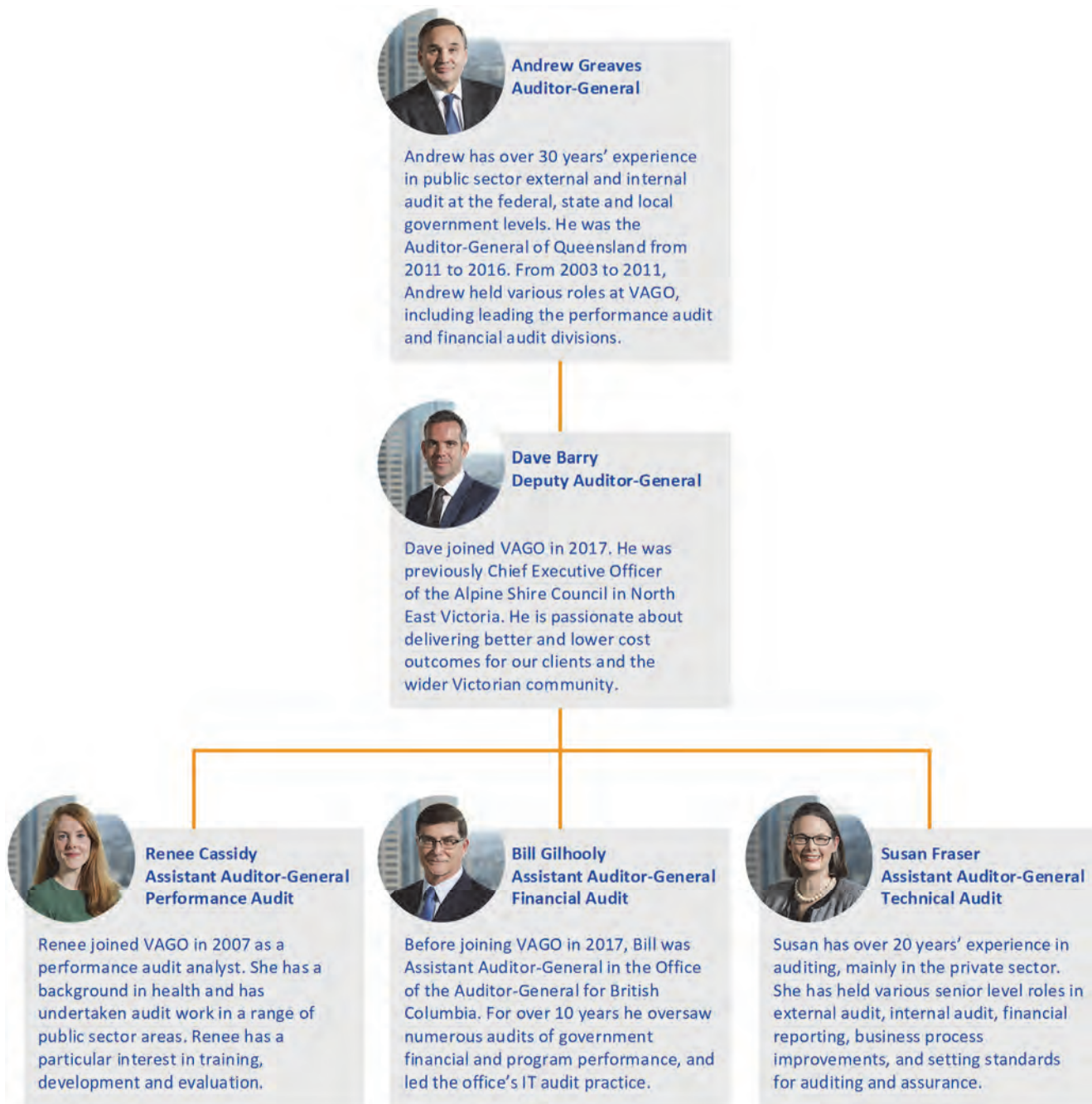
This year, we launched our new values, developed through a staff-led process that empowered our people to shape what values we should embody to meet our vision. This is a critical first step towards changing our culture for the long term.

In addition, we have enabled our staff to work more efficiently by reviewing several systems and processes, including our human resources practices.

We have also instituted a new streamlined governance structure to strengthen and provide clarity on the way we monitor and improve our organisational strategy and performance. We have established a Strategic Management Group, which is responsible for setting and monitoring the implementation of VAGO's strategic plan, and an Operational Management Group, which is responsible for overseeing our operations and our business plans.

5.1 Our staff

Figure 5A
Organisational structure



A profile of all VAGO employees is included in Appendix A. This year for the first time we have also created an online dashboard which allows the public to filter our workforce data. The dashboard, pictured below, is available at www.audit.vic.gov.au/report/annual-report-2017-18.



Visit audit.vic.gov.au to access an interactive version of this dashboard

The dashboard shows our employees by age, seniority, whether they are part-time or full-time, on fixed-term or ongoing contracts, and by gender. VAGO employed 101 women in 2017–18, making up 55 per cent of our workforce. However, women made up 90 per cent of our part-time workers and 76 per cent of our fixed-term employees. Our gender pay gap is 14 per cent or around \$16 000.

In 2018–19 we are developing a Diversity Plan to help us become a more respectful, diverse and equitable organisation, including focusing on supporting women at work.

5.2 Human resources improvements

Over the past year, we have reviewed and modernised many of our human resources processes and considered every stage of an employee's time at VAGO.

Recruitment

To make our recruitment more effective, we have simplified our job advertisements. Using plain English, we are providing better information about what working for VAGO is like, including an infographic outlining the benefits of working at VAGO.

We are advertising in a wider range of places, including through professional associations, like Chartered Accountants Australia & New Zealand and CPA Australia, and overseas in Hong Kong, New Zealand and the United Kingdom. We are also using technology to better target our advertising.

To ensure we get the right mix of people, we have introduced psychometric evaluations, video interviewing and online competency testing. Potential staff are assessed on their ability to write reports and use specialised software.

We are also trialling an 'order of merit' process for the financial audit positions and are now recruiting financial auditors just twice a year. All applicants are ranked holistically and we call the next most suitable applicant when a vacancy arises. This new process, in addition to our updated graduate program, will go some way to addressing challenges in filling our financial audit vacancies.

All our internal recruitment processes are moving online, including candidate selection and sending letters offering jobs. The whole process will be conducted without any documentation being printed.

Induction

Once recruited, new VAGO staff now enjoy a comprehensive and effective induction process. In the past, our inductions have been inconsistent across different business units. New staff were sometimes left with gaps in their knowledge and uncertainty about whom to approach with questions.

Our new process clarifies the roles of the different business units and identifies the training needs of each new starter. Team managers now take a more active role in induction, guided by a 100-day checklist to ensure everything new employees need to know is covered.

New employees also get ongoing support from an allocated buddy who helps them settle into VAGO and provides an alternative source of advice from the employee's manager. We also have a comprehensive new starters' intranet page.

This revised induction process is still new but early feedback from across VAGO has been very positive, with staff finding recent inductions very effective.





Learning and development

ACAG benchmarking data shows that in 2017–18:

- financial audit staff received 78 hours of training per full-time equivalent
- performance audit staff received 60 hours of training per full-time equivalent.

We continually balance the need to ensure the skills of our staff are kept up to date, while ensuring that their efforts create valuable audit outcomes.

This year, there has been a great investment in learning and development, with an emphasis on behavioural skills and technical training.

One of our skills initiatives was the mandatory Manager Foundations program—five modules to equip managers with effective leadership skills. This program was developed in response to staff surveys and in consultation with senior executives. For other staff, we delivered courses in response to the needs identified through performance development plans. We also continue to support individual developmental needs by providing external coaching.

Technical audit training has continued to be a focus, ensuring all our staff are up to date with the latest regulatory standards as well as our audit methodology. We have run technical courses on data analytics tools, the impact of changes to technical accounting standards, and VAGO’s audit methodology.

During the year, our staff have been keynote speakers and panel members at a variety of events, such as the Impact 2018 performance audit conference in Sydney, hosted by ACAG, and the Australian Government Data Summit held in Canberra. The staff who attended external events share their knowledge across the organisation through written articles and ‘lunch ‘n’ learn’ sessions. We are also building our internal capacity by offering an in-house ‘Train the Trainer’ course so that we can leverage and share information in formal and informal ways.

5.3 Developing our new values

VAGO has been going through a period of significant change and transformation, not only in our structure but also in the way we work. Our previous set of internal values no longer reflected the type of workplace VAGO was becoming, or the priorities of our staff. Choosing new values was an opportunity for staff to have their say, and make a commitment to the way we will work together to achieve our objectives.

We empowered our staff to lead the change and take control of setting the organisational values, supported by independent consultant facilitators. Firstly, focus groups brainstormed various values, discussed what they meant and which were most important. Then the Values Consultative Committee was established to refine these ideas and draft a new set of values. The committee was made up of staff from all levels and areas of VAGO.

There was an official launch of the new values on 15 May and there have been several subsequent events to support all VAGO staff to embed the values in our everyday work. These events have been led by interested staff, with support from the human resources team and the leadership group.

Activities to embed the values will continue and we will review our progress through the People Matter Survey next year.



6

Our internal operations: Leading the public sector

Benchmarking by ACAG in 2016–17 showed that we spent 24 per cent of our total office expenditure on corporate support functions, which was around 8 per cent more than the state and territory average.

This was a strong driver for reducing our corporate costs, so that Victorians get better value for money from our work.

Our efforts to reduce costs resulted in our corporate support spend decreasing significantly to just 17 per cent this year, now just 4 per cent behind this year's state and territory average.

One of our new strategic objectives is to lead the public sector by example, and a key part of that is making VAGO an exemplary audit office. We are in the process of modernising several aspects of our work.

There are many processes we have used for a long time without critically assessing whether they are the best way of doing things. To become more efficient we have reviewed our practices and are improving our systems to make things easier for auditors and our other staff. We are eliminating unnecessary processes and purchases.

Our core work is auditing, but we have always spent a large portion of our time and effort on supporting corporate activities. We are trying to refocus our resources on audit work and creating value through our activities.

We are in transition and are striving to be innovative—this is one of our new values. We hope to become an organisation that can truly challenge the status quo and deliver a better service by doing things differently.

This year, we have taken many steps toward making VAGO a modern and responsive audit office. This section details some of our improvement projects.

6.1 Key developments

Cost savings

Several of our improvement projects this year have been aimed at reducing our costs, including:

- various ICT projects
- the business process simplification project
- the records management Melbourne to Mornington project.

Through these and other projects VAGO has saved over \$183 000 this year, and redirected that money to performing audit work improving our technology and increasing our analytics capability.

ACAG benchmarking data shows that our financial audit staff spend 67 per cent of their available time directly on financial audits and our performance audit staff spend 70 per cent of their available time directly on performance audits.

This year, we have commenced reviewing and improving our internal controls framework across the ‘three lines of defence’. This has involved establishing our new governance forums, revising our risk management approach, and updating our fraud and corruption policy framework in line with the findings of our performance audit *Fraud and Corruption Control*, tabled in March 2018.

Throughout the year, we have implemented a number of information and communications technology (ICT) changes:

- We have begun 24/7 monitoring of our network and security.
- Staff received new Surface Book 2 laptops.
- We implemented mandatory multi-factor authentication for all staff.
- We updated the resilience of our network.
- We started migrating core services to the Cloud—we plan to have no server infrastructure on our premises by the end of 2019.

VAGO takes information and data security very seriously. We manage the risks associated with holding confidential information, and we accept the responsibilities we have to individuals to protect privacy, in accordance with the *Privacy and Data Protection Act 2014*. In 2017–18, we improved our security arrangements across the information, ICT, personnel and physical domains to ensure that we exceed the Act’s minimum requirements and protect the information we hold.

By applying our data analytics capability to our own work, we are developing a business intelligence dashboard that gives us simple and timely access to performance and management information. The dashboard will readily show, in real time, how efficiently and effectively we are using our resources and over time will steadily be built up to cover a range of productivity and performance measures. We believe that this better business intelligence will drive better decision making.

This year, we eliminated unnecessary internal red tape. We streamlined and automated some core administrative business processes to save money and empower staff who previously had to go through needless approval processes. This project was partly driven by staff survey results which highlighted too much bureaucracy and red tape as an issue. Part of the project looked at staff travel, including car hire and taxi use. The other part reviewed our process for publishing financial audit opinions and was conducted in collaboration with our records management team. Information management is an area where VAGO is providing an example to the public sector. Two of our projects were recognised this year at the prestigious Rupert Hamer Records Management Awards.

Figure 6A

From Melbourne to Mornington: The end of the paper trail and the start of the digital journey

Every year we issue a financial audit opinion letter to six individuals for each of the 550 public sector entities that we audit. This meant sending 3 300 separate letters by post, a process which took over 100 hours and used approximately 233 000 pieces of A4 paper. If laid end to end, these would reach from our office in the CBD to Mornington.

We digitised this whole process, which produced a number of benefits:

- The process now takes under 22 hours.
- We are saving \$12 500 annually that was being spent on paper, printing and postage.
- A secure electronic record of the audit opinion transaction is captured into compliant business information systems.
- 70 kms of paper is no longer being used.

This project also challenged the perception, often held by other public sector agencies, that auditors want to see paper copies of documents. This was a pilot project, and we have continued digitising our other paper-based processes.

Figure 6B

The digital destination: Paving the way using VERS3

In 2015, the Public Record Office Victoria (PROV) released the Victorian Electronic Records Standard version 3 (VERS3). However, the process of creating and transferring a record as a VERS3 encapsulated object (VEO) had never been tested and executed by an agency.

We undertook a project to transfer our key permanent records, our audit reports, to PROV as VEOs. This was the first transfer of its kind in Victoria. We worked collaboratively with PROV to test processes, tools and guidance material. The project was very successful, with the transfer being executed ahead of time and the VEO creation and transfer meeting all quality standards.

The project had several benefits:

- All of our tabled audit reports from 1956 to 2017 are now forever accessible to the public.
- The process for creating VEOs was streamlined and is now more time and resource efficient for agencies.
- PROV has a much clearer understanding of the challenges agencies face in the electronic transfer process.

Our financial management

7.1 Current year financial review

Our primary fiscal objective is to minimise our costs to Parliament and our public sector fee-paying clients, while maintaining the effectiveness and quality of our services and their delivery.

Our financial performance and position are, as a rule, predictable year on year, as the nature of our business and its scale does not change substantially. Following the prior year's organisational transformation, this year's results reflect the embedding of our changed practices.

Figure 7A

Financial summary 2017–18 and previous four years

Item	2017–18 (\$'000)	2016–17 (\$'000)	2015–16 (\$'000)	2014–15 (\$'000)	2013–14 (\$'000)	Movement from 2016–17 to 2017–18 (\$'000)	Change from 2016–17 to 2017–18 (percentage)
Total revenue	45 276	43 763	41 384	39 698	38 954	1 513	3
Total expenses	43 263	46 907	41 301	39 161	38 994	(3 644)	-8
Surplus/(deficit)	2 013	(3 144)	83	537	(40)	5 157	-164
Financial assets	19 955	25 619	16 962	15 019	13 965	(5 664)	-22
Non-financial assets	5 968	6 463	1 386	1 803	2 326	(495)	-8
Total assets	25 923	32 082	18 348	16 822	16 291	(6 159)	-19
Total liabilities	18 360	26 532	9 654	8 211	8 217	(8 172)	-31
Net assets	7 563	5 550	8 694	8 611	8 074	2 013	36

Surplus/deficit

We aim to break even over the medium term, understanding that in some years we need to invest in new technology and update our audit methodologies. This will lead to deficits in those years, which we fund from our working capital reserves. In other years, we will make small surpluses, which will replenish our reserves.

This year we made a surplus to partly offset last year's deficit, indicating that we are operating in a fiscally responsible and sustainable manner.

Figure 7B
Surplus/deficit as percentage of total revenue

2017–18	2016–17	2015–16	2014–15	2013–14	Five-year average
4.4%	-7.2%	0.2%	1.4%	-0.1%	-0.3%

This year's surplus was due largely to the realisation of cost-savings across all expense categories.

Net assets

We remain in a strong financial position, with an improvement in our financial position driven by the operating surplus. Significantly, our working capital is sufficient to fund our operations over the forward estimates period.

Figure 7C
Net assets as a percentage of total assets

2017–18	2016–17	2015–16	2014–15	2013–14	Five-year average
29.2%	17.3%	47.4%	51.2%	49.6%	35.2%

The future

We budget for a small surplus in 2018–19, as we continue to implement our organisational transformation activities.

7.2 Financial performance

Operating statement

Our net financial result for the year was a surplus of \$2 013 000, compared with a deficit of \$3 144 000 in 2016–17.

Figure 7D
Revenues and expenses

Item	2017–18 (\$'000)	2016–17 (\$'000)	2015–16 (\$'000)	2014–15 (\$'000)	2013–14 (\$'000)	Movement from 2016–17 to 2017–18 (\$'000)	Change from 2016–17 to 2017–18 (percentage)
General appropriation	16 589	16 184	15 789	15 404	15 179	405	3
Special appropriation	569	590	576	541	495	(21)	-4
Section 29	27 942	26 586	24 732	23 536	23 191	1 356	5
Other	176	403	287	217	89	(227)	-56
Total revenue	45 276	43 763	41 384	39 698	38 954	1 513	3
Total expenses	43 263	46 907	41 301	39 161	38 994	(3 644)	-8
Surplus/(deficit)	2 013	(3 144)	83	537	(40)	5 157	-164

Revenue

We are funded through Parliamentary appropriations and *Financial Management Act 1994* section 29 revenue.

Our total revenue has been rising steadily over the past several years. It increased 3 per cent in 2017–18 through a combination of increased section 29 revenue from audit engagement fees, and the indexation of our general appropriation in line with inflation.

Other revenue declined because of fewer staff secondments to other agencies and so lower recovery of associated costs, as well as no longer being reimbursed for performing the ACAG Financial Reporting and Accounting Council secretariat role, which has rotated to another member.

Expenses

We spend most of our budget on employees, contract audit services including audit service providers, and miscellaneous expenses, such as accommodation, supplies and services.

Figure 7E
Expenses from ordinary activities

Item	2017–18 (\$'000)	2016–17 (\$'000)	2015–16 (\$'000)	2014–15 (\$'000)	2013–14 (\$'000)	Movement from 2016–17 to 2017–18 (\$'000)	Change from 2016–17 to 2017–18 (percentage)
Depreciation	839	583	657	765	753	256	44
Employee expenses	23 801	27 809	23 715	23 238	21 714	(4 008)	-14
Contract audit services	12 547	12 154	11 893	10 446	11 652	393	3
Rental expenses— accommodation	1 864	1 530	1 520	1 514	1 509	334	22
Other expenses	4 212	4 831	3 516	3 198	3 366	(619)	-13
Total expenses	43 263	46 907	41 301	39 161	38 994	(3 644)	-8

Our employee expenses decreased by 14 per cent, or \$4 million, mainly because of one-off employment termination payments and provisions from the organisational restructure program in the prior year, and a lower overall headcount, bringing costs in line with prior years.

Our depreciation expense has increased in the current year due to a full year's depreciation being charged on leasehold improvements for the new office premises.

Our audit service provider contractor expenditure of \$11.80 million is broadly in line with last year's (\$11.29 million). We continue to use contracted subject-matter experts in our performance audit area (\$743 000 compared to \$866 000 in 2016–17) to make sure we have the skills and knowledge needed to evaluate complex programs and services.

Our rental expenditure comprises base rental costs, common tenancy maintenance costs and other outgoings. Our relocation in late May 2017 saw our base rent increase by 37 per cent, offset by the smaller office area now occupied, which is reflected in the 22 per cent increase in the current year.

The 13 per cent decrease in remaining expenses reflects the organisation's transformation activities and focus on economic efficiencies.

7.3 Financial position

Balance sheet

Our financial position at 30 June 2018 remained adequate, with total assets of \$25.9 million, total liabilities of \$18.3 million and net assets of \$7.6 million.

Figure 7F
Assets and liabilities movement

Item	2017–18 (\$'000)	2016–17 (\$'000)	2015–16 (\$'000)	2014–15 (\$'000)	2013–14 (\$'000)	Movement from 2016–17 to 2017–18 (\$'000)	Change from 2016–17 to 2017–18 (percentage)
Financial assets	19 955	25 619	16 962	15 019	13 965	(5 664)	-22
Non-financial assets	5 968	6 463	1 386	1 803	2 326	(495)	-8
Total assets	25 923	32 082	18 348	16 822	16 291	(6 159)	-19
Total liabilities	18 360	26 532	9 654	8 211	8 217	(8 172)	-31
Net assets	7 563	5 550	8 694	8 611	8 074	2 013	36

Assets

Our total financial assets decreased by \$5.7 million, largely due to partial repayment of a public account advance of \$8.5 million from the prior year. The total amount recognised as owing from the Victorian Government comprises previously applied Parliamentary appropriations not yet drawn down. The balance represents accumulated surpluses, payables, movements in provisions and accumulated depreciation net of asset acquisitions. The amounts represent funding for all commitments incurred through the appropriations and are drawn from the Consolidated Fund as the commitments fall due.

Non-financial assets have decreased by \$0.5 million due to depreciation of assets being only partially offset by new asset acquisitions.

Liabilities

Our liabilities decreased by \$8.2 million (31 per cent), primarily due to the partial repayment of the public account advance of \$8.5 million, and significantly lower accruals for redundancy payments.

7.4 Cash flows

Cash flow statement

We keep a base cash balance of \$900 in petty cash. All other bank balances are transferred overnight to the state government as part of our government banking arrangement.

Figure 7G
Cash flow statement

Item	2017–18 (\$'000)	2016–17 (\$'000)	Change (\$'000)	Change (percentage)
Net cash flows from / (used in) operating activities	488	4 118	(3 631)	-88
Net cash flows from / (used in) investing activities	(346)	(4 122)	3 776	-92
Net cash flows from / (used in) financing activities	(142)	4	(146)	-3 400
Net increase / (decrease) in cash held	—	—	—	—
Cash at the beginning of the financial year	1	1	—	—
Cash at the end of the financial year	1	1	—	—

Our net surplus for the year under an accrual basis is \$2.01 million. The net cash inflow from operating activities was lower, at \$488 000. This is mainly because the decline in payables of \$7.0 million was more than the decline in receivables of \$5.7 million. The main driver of the decline in payables was the partial repayment of the public account advance.

7.5 Other financial matters

Financial report

Under Standing Direction 4.2 of the *Financial Management Act 1994*, the financial statements of government departments must be presented fairly and in accordance with the requirements in the model financial report. This annual report complies with this requirement.

Consultancies

In 2017–18, we engaged one consultancy that had total fees payable greater than \$10 000, as outlined in Figure 7H. We also engaged one consultancy where the total fees payable were less than \$10 000, with a total expenditure of \$3 000 (excluding GST).

Figure 7H
Consultancies—payments in excess of \$10,000

Consultant	Purpose of consultancy	Start date	End date	Total approved project fee (excluding GST) (\$'000)	Expenditure 2017–18 (excluding GST) (\$'000)	Future expenditure (excluding GST) (\$'000)
Peter Collins and Associates Pty Ltd	Strategy development	20 July 2017	30 September 2017	11	11	0

Performance audit contractors

In 2017–18, we paid \$0.74 million (\$0.87 million in 2016–17) to 12 contractors for services related to performance audits.

Figure 7I

Payments to performance audit contractors

Performance audit contractor	2017–18 (\$'000)	2016–17 (\$'000)
ACER	27	–
Aginic	–	272
Aski	235	–
Australian Survey Research Group Pty Ltd	–	45
Chappell Dean Pty Ltd	–	12
Civic Ways Pty Ltd	–	23
Dench McLean Carlson Pty Ltd	–	82
Eassure	–	31
Ernst & Young	–	70
Finity Consulting Pty Ltd	180	–
Glossop Town Planning Pty Ltd	–	28
Guidera Consulting Group Pty Ltd	81	–
Keaney Planning	–	23
KordaMentha	137	–
Lion Partnership	40	–
Orima Research Pty Ltd	–	22
Ovum Pty Ltd	–	22
Paul Edney	–	27
PEECE Pty Ltd	–	44
P G Rorke	–	59
Project Planning & Development	–	28
Tract Consultants	–	23
Victorian Government Solicitor ^(a)	20	–
Other—5 service providers (6 in 2016–17)	23	55
Total	743	866

(a) The Victorian Government Solicitor's Office was engaged to provide legal advice on audits.

Financial audit service providers

In 2017–18, we paid \$11.8 million (\$11.3 million in 2016–17) to 23 audit firms that provided services related to our financial statement audits.

Figure 7J
Payments to financial audit service providers

Financial audit service provider	2017–18 (\$'000)	2016–17 (\$'000)
Accounting and Auditing Solutions	67	63
Crowe Horwath	834	671
Crowe Horwath Albury	485	418
Crowe Horwath Vic	636	576
Crowe Horwath West Vic	88	177
Davidsons Assurance Services Pty Ltd	44	48
DFK Kidsons	268	81
DMG Audit and Advisory	241	199
Ernst & Young	801	826
Grant Thornton Audit Pty Ltd	–	54
HLB Mann Judd (VIC Partnership)	2 601	2 536
Johnsons MME	383	315
KPMG	543	422
LD Assurance	135	138
McLaren Hunt ^(a)	405	384
McLean Delmo Bentleys Pty Ltd	517	681
MGR Accountants Pty Ltd	20	12
Moore Stephens Audit (Vic)	39	–
PPT Professional Pty Ltd	62	26
RSD Audit ^(b)	1 036	1 184
RSM Australia Pty Ltd	2 567	2 420
Other—3 service providers (5 in 2016–17)	32	57
Total	11 804	11 288

(a) Previously known as Coffey Hunt Audit

(b) Previously known as Richmond Sinnott & Delahunty

Information and communications technology expenditure

In 2017–18, we had ICT expenditure of \$1 794 000.

Figure 7K
ICT expenditure

Expenditure type	Expenditure (\$'000)
Business as usual (BAU) ICT expenditure	1 113
Non-BAU ICT expenditure	682
Operational expenditure	343
Capital expenditure	339

ICT expenditure refers to our costs in providing business-enabling ICT services. It comprises BAU ICT expenditure and non-BAU ICT expenditure. Non-BAU ICT expenditure relates to extending or enhancing our current ICT capabilities. BAU ICT expenditure is all remaining ICT expenditure which primarily relates to ongoing activities to operate and maintain the current ICT capability.

Whole-of-government financial statements

Figure 7L is a comprehensive operating statement for the Parliament portfolio that provides a comparison between our actual financial statements and the forecast financial information published in the *Statement of Finances 2017–18: Budget Paper No.5* (BP5). The financial data has been prepared on a consolidated basis and includes all general government sector entities within the portfolio. Financial transactions and balances are classified into either controlled or administered categories, as agreed with the Treasurer in the context of the published statements in BP5. The following statements are not subject to audit and are not prepared on the same basis as VAGO's financial statements as they include the consolidated financial information of the Parliament entity.

Figure 7L

Comprehensive operating statement for Parliament

	2017–18				
	Budget			Actual	Variance ^(b)
	Parliament (\$'000)	VAGO (\$'000)	Controlled Parliament ^(a) (\$'000)	VAGO (\$'000)	VAGO (\$'000)
Income from transactions					
Output appropriations	130 531	42 601	173 132	44 531	1 930
Special appropriations	48 635	558	49 193	569	11
Sale of goods and services	26 098	0	26 098	143	143
Grants	14	0	14	0	0
Fair value of services received free of charge or for nominal consideration	0	38	38	33	(5)
Total income from transactions	205 278	43 197	248 475	45 276	2 079
Expenses from transactions					
Employee benefits	108 684	25 836	134 520	23 801	2 035
Depreciation and amortisation	14 549	355	14 904	839	(484)
Interest expense	86	2	88	14	(12)
Capital asset charge	6 490	126	6 616	359	(233)
Payments into consolidated fund	26 021	0	26 021	0	0
Other operating expenses	49 371	16 854	66 225	18 137	(1 283)
Total expenses from transactions	205 201	43 173	248 374	43 150	23
Net result from transactions (net operating balance)	77	24	101	2 126	2 102

(a) Budget figures are as published in *Statement of Finances 2017–18: Budget Paper No.5*, page 132 (shown in \$millions).

(b) For income items, the variance is positive if actual exceeds budget. For expense items, the variance is positive if budget exceeds actual.

7.6 Financial statements

Declaration in the financial statements.....	55
Independent Auditor’s Report.....	56
Comprehensive Operating Statement	58
Balance Sheet.....	59
Cash Flow Statement	60
Statement of Changes in Equity.....	61
Notes to financial statements.....	62
1 About this report	62
2 Funding delivery of our services.....	63
3 The cost of delivering our services	65
4 Controlled and administered items	68
5 Key assets available to support output delivery	72
6 Other assets and liabilities.....	77
7 How we financed operations.....	81
8 Risks and valuation judgements	83
9 Other disclosures	87

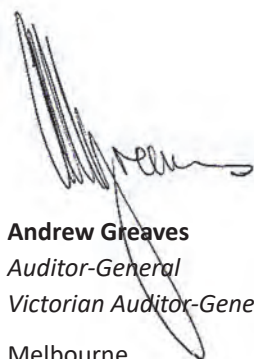
Declaration in the Financial Statements

The attached financial statements for the Victorian Auditor-General's Office (VAGO) have been prepared in accordance with Direction 5.2 of the Standing Directions of the Minister for Finance under the *Financial Management Act 1994*, applicable Financial Reporting Directions, Australian Accounting Standards including Interpretations, and other mandatory professional reporting requirements.

We further state that, in our opinion, the information set out in the Comprehensive Operating Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement and accompanying notes, presents fairly the financial transactions during the year ended 30 June 2018 and financial position of VAGO at 30 June 2018.

At the time of signing, we are not aware of any circumstance which would render any particulars included in the financial statements to be misleading or inaccurate.

We authorise the attached financial statements for issue on 21 August 2018.



Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
Melbourne
21 August 2018



Narelle Whinfield
Finance Director
Victorian Auditor-General's Office
Melbourne
21 August 2018

Independent Auditor's Report



Independent Auditor's Report to the Victorian Auditor-General's Office

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of the Victorian Auditor-General's Office, which comprises the statement of financial position as at 30 June 2018, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the accountable officer's declaration.

In our opinion, the accompanying financial report presents fairly, in all material respects, the financial position of the Victorian Auditor-General's Office as at 30 June 2018 and its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards and the Financial Management Act 1994.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the 'auditor's responsibilities for the audit of the financial report' section of our report. We are independent of the entity in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The Auditor-General is responsible for the other information. The other information comprises the information in the Victorian Auditor-General's Office's annual report for the year ended 30 June 2018, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information we are required to report that fact. The annual report is expected to be made available to us after the date of this independent auditor's report.

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Auditor-General' responsibility for the financial report

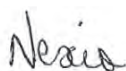
The Auditor-General is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and Financial Management Act 1994, and for such internal control as the Auditor-General determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Auditor-General is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Auditor-General either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibility for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at The Australian Auditing and Assurance Standards Board website at:
http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our auditor's report.



Nexia Melbourne Audit Pty Ltd
Melbourne



Geoff S. Parker
Director

Dated this 21st day of August 2018

Comprehensive Operating Statement

for the financial year ended 30 June 2018

	Note	2017–18 \$'000	2016–17 \$'000
Income from transactions			
Output appropriations	2.1	44,531	42,770
Special appropriations		569	590
Sale of services and other income	2.2.1	176	403
Total income from transactions		45,276	43,763
Expenses from transactions			
Employee expenses	3.1.1	23,801	27,809
Contracted audit services provided by professional firms		12,547	12,154
Operating lease payments - accommodation		1,864	1,530
Depreciation	5.1.2	839	583
Interest expense		14	10
Consultants and contractors		982	1,482
Other operating expenses	3.4	3,103	3,611
Total expenses from transactions		43,150	47,179
Net result from transactions (net operating balance)		2,126	(3,416)
Other economic flows included in net result			
Net gain / (loss) on non-financial assets	7.2.1	(29)	(2)
Other gains / (losses) from other economic flows		(84)	274
Total other economic flows included in net result		(113)	272
Net result		2,013	(3,144)
Comprehensive result gain / (loss)		2,013	(3,144)

The accompanying notes form part of these financial statements.

Balance Sheet

as at 30 June 2018

	Note	2017–18 \$'000	2016–17 \$'000
Assets			
Financial assets			
Cash	7.2	1	1
Receivables	6.1	19,954	25,618
Total financial assets		19,955	25,619
Non-financial assets			
Property, plant and equipment and intangible assets	5.1.2	5,403	5,926
Other non-financial assets	6.2	565	537
Total non-financial assets		5,968	6,463
Total assets		25,923	32,082
Liabilities			
Payables	6.3	12,546	19,560
Borrowings	7.1	155	297
Employee related provisions	3.1.2	4,880	6,200
Other provisions	6.4	779	475
Total liabilities		18,360	26,532
Net assets		7,563	5,550
Equity			
Accumulated surplus		7,268	5,255
Contributed capital		295	295
Net worth		7,563	5,550

The accompanying notes form part of these financial statements.

Cash Flow Statement

for the financial year ended 30 June 2018

	Note	2017–18 \$'000	2016–17 \$'000
Cash flows from operating activities			
Receipts			
Appropriation receipts from Government		57,457	50,991
Receipts from other entities		143	370
Total receipts		57,600	51,361
Payments			
Payments to suppliers and employees		(55,877)	(46,660)
Goods and Services Tax paid to the ATO ⁽ⁱ⁾		(873)	(451)
Capital asset charge payments		(359)	(123)
Interest and other costs of finance paid		(3)	(9)
Total payments		(57,112)	(47,243)
Net cash flows from / (used in) operating activities	7.2.1	488	4,118
Cash flows from investing activities			
Purchases of non-financial assets		(494)	(4,214)
Sales of non-financial assets		148	92
Net cash flows from / (used in) investing activities		(346)	(4,122)
Cash flows from financing activities			
Proceeds from finance leases		73	161
Repayment of finance leases		(215)	(157)
Net cash flows from / (used in) financing activities		(142)	4
Net increase / (decrease) in cash held		-	-
Cash at the beginning of the financial year		1	1
Cash at the end of the financial year	7.2	1	1

The accompanying notes form part of these financial statements.

(i) Goods and Services Tax paid to the ATO is presented on a net basis.

Statement of Changes in Equity

for the financial year ended 30 June 2018

	Accumulated surplus \$'000	Contributed capital \$'000	TOTAL \$'000
Balance at 1 July 2016	8,399	295	8,694
Net result for the year	(3,144)	-	(3,144)
Balance at 30 June 2017	5,255	295	5,550
Net result for the year	2,013	-	2,013
Balance at 30 June 2018	7,268	295	7,563

The accompanying notes form part of these financial statements.

Notes to financial statements

1. ABOUT THIS REPORT

The Victorian Auditor-General's Office (VAGO) and the Auditor-General's mandate are established pursuant to:

- the *Constitution Act 1975*, which establishes the role of the Auditor-General and gives the Auditor-General complete discretion in the performance and exercise of his functions and powers
- the *Audit Act 1994*, which establishes the Auditor-General's mandate, provides the legal basis for his powers, and identifies his responsibilities.

VAGO is an administrative agency acting on behalf of the Crown. Our address is: Level 31, 35 Collins Street, Melbourne, VIC, 3000.

A description of the nature of VAGO's operations and its principal activities and objectives is included in the report of operations, which does not form part of these financial statements.

Basis of preparation

These financial statements cover VAGO as an individual reporting entity and include all of its controlled activities.

These financial statements are prepared in Australian dollars and use the historical cost convention unless a different measurement basis is specifically disclosed in the note associated with the item. They apply an accrual basis of accounting whereby assets, liabilities, equity, income and expenses are recognised in the reporting period to which they relate, regardless of when cash is received or paid.

Consistent with the requirements of AASB 1004 *Contributions*, contributions by owners (that is, contributed capital and its repayment) are treated as equity transactions and, therefore, do not form part of the income and expenses of VAGO. Additions to net assets which have been designated as contributions by owners are recognised as contributed capital. Other transfers that are in the nature of contributions to or distributions by owners have also been designated as contributions by owners.

Judgements, estimates and assumptions are made about financial information being presented. Significant judgements are in the notes where amounts affected by those judgements are disclosed. Estimates and associated assumptions are based on professional judgements derived from historical experience and various other factors believed reasonable under the circumstances. Actual results may differ from these estimates. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

All amounts in the financial statements have been rounded to the nearest \$1 000, unless otherwise stated.

Compliance information

These general purpose financial statements have been prepared in accordance with the *Financial Management Act 1994* (FMA) and applicable Australian Accounting Standards (AAS) which include Interpretations, issued by the Australian Accounting Standards Board (AASB). In particular, they are presented in a manner consistent with the requirements of AASB 1049 *Whole of Government and General Government Sector Financial Reporting* (AASB 1049).

Where appropriate, AAS paragraphs applicable to not-for-profit entities have been applied. Accounting policies selected and applied in these financial statements ensure that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events are reported.

2. FUNDING DELIVERY OF OUR SERVICES

2.1 Summary of compliance with annual Parliamentary and special appropriations

The following table discloses the details of the various annual Parliamentary appropriations received by VAGO for the year.

'Provision for outputs' are disclosed as 'controlled' activities of VAGO. Administered transactions are those that are undertaken on behalf of the State of Victoria over which VAGO has no control or discretion.

	<i>Appropriations Act</i>	<i>Financial Management Act 1994⁽ⁱ⁾</i>	<i>Total Parliamentary authority</i>	<i>Appropriations applied</i>	<i>Variance⁽ⁱⁱ⁾</i>
	<i>Annual appropriation</i>	<i>Section 29</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
2017–18	\$'000	\$'000	\$'000	\$'000	\$'000
Controlled					
Provision for outputs	16,589	26,012	42,601	44,531	(1,930)
Total 2017–18	16,589	26,012	42,601	44,531	(1,930)
2016–17					
Controlled					
Provision for outputs	16,184	25,585	41,769	42,770	(1,001)
Total 2016–17	16,184	25,585	41,769	42,770	(1,001)

(i) VAGO has received a public account advance under section 37 FMA of \$8.54 million. This does not require a warrant, but allows VAGO to replenish the State Administration Unit receivable, as disclosed under 'Amounts owing from Victorian Government' in Note 6.1. The advance is disclosed under 'Amounts payable to government and agencies' in Note 6.3.

(ii) The variance from estimate in 2016–17 and 2017–18 was due to the variability in financial audit fees charged and retained as per the section 29 agreement.

The following table discloses the details of compliance with special appropriations:

Authority	Purpose	Appropriations applied	
		2017–18	2016–17
		\$'000	\$'000
The <i>Constitution Act 1975</i> , section 94A(6)	Costs associated with the Auditor-General	569	590

Appropriations

Once annual Parliamentary appropriations are applied by the Treasurer, they become controlled by VAGO and are recognised as income when applied to the purposes defined under the *Appropriation Act 2016*.

Output appropriations: Income from the outputs VAGO provides to Parliament is recognised when the outputs have been delivered and the Minister for Finance and the Treasurer have certified delivery of the outputs in accordance with specified performance criteria as outlined in the 2017–18 budget papers.

Special appropriations: Under section 94A(6) of the *Constitution Act 1975*, revenue related to costs associated with the Auditor-General's delivery of assurance services, such as remuneration and on-costs, is recognised when the amount appropriated for that purpose is due and payable to VAGO.

Annotated income agreements

VAGO charges and collects financial audit fees from audit clients. VAGO is permitted to have financial audit fees annotated to annual appropriation per section 29 of the FMA. Receipts are transferred into the Consolidated Fund and shown as an administered item in Note 4.2. At the point of income recognition, section 29 provides for an equivalent amount to be added to the annual appropriation, which is then available to fund the costs of financial audit services.

The following is a listing of the FMA section 29 annotated income agreements approved by the Treasurer:

	2017–18	2016–17
	\$'000	\$'000
Fee for services		
Audit fees	26,012	25,585
Total annotated income agreements	26,012	25,585

2.2 Other income from transactions

2.2.1 Services and other income

	2017–18	2016–17
	\$'000	\$'000
Sale of services ⁽ⁱ⁾	143	370
Fair value of services received free of charge or for nominal consideration ⁽ⁱⁱ⁾	33	33
Total sale of services and other income	176	403

- (i) Arises from the recovery of costs of secretariat services for the Australasian Council of Auditors-General (ACAG), and the recovery of salaries of staff seconded to other government departments and agencies. The prior year included revenue from the recovery of costs of the Financial Reporting and Auditing Committee. Income from the sale of services includes the recovery of costs for staff secondments to other Victorian government departments and agencies and other State Auditor-General Offices and is recognised by reference to the stage of completion of the services being performed. The income is recognised when the amount of the income, stage of completion and transaction costs incurred can be reliably measured, and it is probable that the economic benefits associated with the transaction will flow to VAGO.

Under this method, income is recognised by reference to labour hours supplied or to labour hours supplied as a percentage of total services to be performed in each annual reporting period.

- (ii) Represents funding of remuneration of the external auditor paid by the Public Accounts and Estimates Committee. See Note 9.4 for further details.

3. THE COST OF DELIVERING OUR SERVICES

This section provides an account of the expenses incurred by VAGO in delivering services and outputs.

3.1 Employee benefits

3.1.1 Employee benefits included in the Comprehensive Operating Statement

	2017–18	2016–17
	\$'000	\$'000
Salaries and wages, annual leave and long service leave	21,786	23,638
Defined contribution superannuation expense	1,884	1,860
Defined benefit superannuation expense	69	109
Termination benefits	62	2,202
Total employee expenses	23,801	27,809

Employee expenses include all costs related to employment including wages and salaries, fringe benefits tax, leave entitlements, termination payments, WorkCover premiums, defined benefits superannuation plans and defined contribution superannuation plans.

Employment on-costs such as payroll tax, workers compensation and superannuation are not employee benefits. They are disclosed separately as a component of the provision for employee benefits when the employment to which they relate has occurred.

The amount recognised in relation to superannuation is employer contributions for members of both defined benefit and defined contribution superannuation plans that are paid or payable during the reporting period. VAGO does not recognise any defined benefit liabilities because it has no legal or constructive obligation to pay future benefits relating to its employees. The Department of Treasury and Finance discloses in its annual financial statements the net defined benefit cost related to the members of this plan as an administered liability (on behalf of the State as the sponsoring employer).

Termination benefits are payable when employment is terminated before normal retirement date, or when an employee accepts an offer of benefits in exchange for the termination of employment. Termination benefits are recognised when VAGO is either demonstrably committed to terminating the employees' employment according to a formal plan which has no possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

3.1.2 Employee benefits provisions in the Balance Sheet

A provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave (LSL) for services rendered to the reporting date and recorded as an expense during the period the services are delivered.

	2017–18 \$'000	2016–17 \$'000
Current provisions		
<i>Annual leave</i>		
Unconditional and expected to settle within 12 months	1,156	1,168
Unconditional and expected to settle after 12 months	340	424
	1,496	1,592
<i>Long service leave</i>		
Unconditional and expected to settle within 12 months	305	313
Unconditional and expected to settle after 12 months	1,904	2,013
	2,209	2,326
<i>Provision for on-costs</i>		
Unconditional and expected to settle within 12 months	224	227
Unconditional and expected to settle after 12 months	347	377
	571	604
<i>Performance incentive entitlements</i>		
Unconditional and expected to settle within 12 months	82	376
<i>Termination payments</i>		
Conditional and expected to settle within 12 months	86	811
Total current provisions for employee benefits	4,444	5,709
Non-current provisions		
Employee benefits	377	425
On-costs	59	66
Total non-current provisions for employee benefits	436	491
Total provisions for employee benefits	4,880	6,200

Reconciliation of movement in on-cost provision

	2017–18 \$'000
Opening balance	670
Additional provisions recognised	71
Additions due to transfer in	56
Reductions arising from payments	(105)
Reductions due to transfer out	(73)
Unwind of discount and effect of changes in the discount rate	11
Closing balance	630
Current	571
Non-current	59
Total provisions for on-costs	630

Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries (including non-monetary benefits, annual leave and on-costs) are recognised as part of the employee benefit provision as current liabilities, as VAGO does not have an unconditional right to defer settlement of these liabilities. They are recognised at remuneration rates which are current at the reporting date and measured at undiscounted amounts as it is expected the wages and salaries liabilities will be wholly settled within 12 months of reporting date.

No provision has been made for sick leave as it is non-vesting and not considered probable that the average sick leave taken in the future will be greater than the benefits accrued in the future. As sick leave is non-vesting, an expense is recognised in the Comprehensive Operating Statement as it is taken.

Long service leave

Unconditional LSL is disclosed as a current liability even where VAGO does not expect to settle the liability within 12 months because it does not have an unconditional right to defer the settlement of the entitlement should an employee take leave within 12 months.

The components of the current LSL liability are measured at undiscounted value where VAGO expects to wholly settle within 12 months or present value where VAGO does not expect to wholly settle within 12 months.

Any gain or loss following revaluation of the present value of non-current LSL liability is recognised as a transaction, except to the extent that a gain or loss arises due to changes in bond interest rates which is then recognised as an 'other economic flow', in the net result.

Conditional LSL is disclosed as a non-current liability. There is an unconditional right to defer the settlement of the entitlement until the employee has completed the requisite years of service. This non-current LSL is measured at present value.

Performance incentive entitlements

The performance incentive entitlements liability represents an estimate of the performance incentive entitlements payable to non-executive staff for the performance review period ending on the balance sheet date and payable within the next financial year. These are subject to the remuneration committee's assessment of employee Performance Development Plans. In 2016–17, the liability included an estimate of such payments to executive staff, but these have now been discontinued.

3.1.3 Superannuation contributions

Superannuation contributions paid or payable for the reporting period are included as part of employee benefits in the Comprehensive Operating Statement of VAGO.

	Paid contribution		Contribution	
	for the year		outstanding at	
	2017–18	2016–17	2017–18	2016–17
	\$'000	\$'000	\$'000	\$'000
Defined benefit plans⁽ⁱ⁾				
State Superannuation Fund—revised and new	69	107	-	2
Defined contribution plans				
VicSuper	1,216	1,165	-	19
Other employee nominated plans	648	666	-	10
Total	1,933	1,938	-	31

(i) The bases for determining the level of contributions are determined by the various actuaries of the defined benefit superannuation plans.

As noted in 3.1.1 VAGO does not recognise any defined benefit liabilities.

3.2 Contracted audit services provided by professional firms

VAGO contracts certain audit services to external professional firms. Amounts incurred under such contracts are recognised as an expense in the reporting period in which they are incurred. At the end of the reporting period, an estimate is made of the value of audit services provided to VAGO which have not yet been invoiced. The value of this uninvoiced work is recognised as an accrual in the Balance Sheet, and as an expense in the Comprehensive Operating Statement.

3.3 Operating lease payments

Operating lease payments are recognised on a straight-line basis over the lease term. They relate to the lease of VAGO's premises.

3.4 Other operating expenses

	2017–18	2016–17
	\$'000	\$'000
Training	572	621
Recruitment	245	306
Information technology	826	799
Outsourced internal audit fees	81	255
Motor vehicles	148	256
Travel	266	246
Other office expenses	965	1,128
Total other operating expenses	3,103	3,611

Other operating expenses generally represent the day-to-day running costs incurred in normal operations. They are recognised as an expense in the reporting period in which they are incurred.

4. CONTROLLED AND ADMINISTERED ITEMS

Judgement is required in allocating income and expenditure to specific outputs. The following judgements were made in making the allocations:

- Output appropriation revenue is allocated directly to the output funded by the appropriation.
- Other revenue is allocated on the basis of management estimates of the relative benefits accruing to each output.
- Expenses are allocated on the basis of management estimates of the planned direct hours worked by employees against each output.

There were no amounts unallocated.

The distinction between controlled and administered items is based on VAGO's ability to deploy the resources in question for its own benefit (controlled items) or on behalf of the state (administered). VAGO remains accountable for transactions involving administered items but does not recognise them in its financial statements, except by way of note disclosure.

4.1 Departmental outputs – Descriptions

4.1.1 Output descriptions

For a description of the VAGO's outputs, please refer to pages 21 to 25 in the Report of Operations.

Departmental Outputs – Controlled income and expenses for the year ended 30 June 2018

	Parliamentary reports		Financial statement audit and assurance reports		Total	
	2017–18 \$'000	2016–17 \$'000	2017–18 \$'000	2016–17 \$'000	2017–18 \$'000	2016–17 \$'000
Income from transactions						
Parliamentary output appropriations	16,589	16,184	27,942	26,586	44,531	42,770
Parliamentary special appropriations	244	295	325	295	569	590
Sale of services	59	203	84	167	143	370
Fair value of services received free of charge or for nominal consideration	14	14	19	19	33	33
Total income from transactions	16,906	16,696	28,370	27,067	45,276	43,763
Expenses from transactions						
Employee expenses	11,585	13,056	12,216	14,753	23,801	27,809
Contracted audit services provided by professional firms	743	866	11,804	11,288	12,547	12,154
Depreciation	396	234	443	349	839	583
Interest expense	7	7	7	3	14	10
Capital asset charge	169	53	190	70	359	123
Other operating expenses	2,654	2,938	2,936	3,562	5,590	6,500
Total expenses from transactions	15,554	17,154	27,596	30,025	43,150	47,179
Net result from transactions (net operating balance)	1,352	(458)	774	(2,958)	2,126	(3,416)
Other economic flows included in net result						
Net gain / (loss) on non-financial assets	(14)	(1)	(15)	(1)	(29)	(2)
Other gains / (losses) from other economic flows	(41)	131	(43)	143	(84)	274
Total other economic flows included in net result	(55)	130	(58)	142	(113)	272
Net result	1,297	(328)	716	(2,816)	2,013	(3,144)
Comprehensive result gain / (loss)	1,297	(328)	716	(2,816)	2,013	(3,144)

Controlled assets and liabilities as at 30 June 2018

	Parliamentary reports		Financial statement audit and assurance reports		Total	
	2017–18	2016–17	2017–18	2016–17	2017–18	2016–17
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Assets						
Financial assets	7,199	9,298	12,756	16,321	19,955	25,619
Non-financial assets	2,153	2,345	3,815	4,118	5,968	6,463
Total assets	9,352	11,643	16,571	20,439	25,923	32,082
Liabilities						
Total liabilities	6,624	9,629	11,736	16,903	18,360	26,532
Net assets	2,728	2,014	4,835	3,536	7,563	5,550

4.2 Administered Items

Administered income includes recovery of audit costs incurred from performing financial statement audits. VAGO does not control the income and assets arising from audit fees and collects these amounts on behalf of the state. Accordingly, the income and related assets are disclosed as Administered Items. As VAGO has an annotated income agreement for financial audit fees, the output appropriation—used to fund the costs of financial audit services (see Note 2.1)—is increased by an equivalent amount.

Administered expenses include payments made on behalf of the state and payments into the Consolidated Fund. Administered assets include government income earned but yet to be collected. Administered liabilities include government expenses incurred but yet to be paid.

Except as otherwise disclosed, administered resources are accounted for on an accrual basis using the same accounting policies adopted for recognition of the controlled items in the financial statements. Both controlled and administered items of VAGO are consolidated into the financial statements of the state.

VAGO's administered (non-controlled) items for the financial year ended 30 June 2018

	2017–18	2016–17
	\$'000	\$'000
Administered income from transactions		
Reimbursement of audit costs charged	27,942	26,479
Miscellaneous income	-	3
Total administered income from transactions	27,942	26,482
Administered expenses from transactions		
Doubtful debts expense	-	(122)
Payments into the Consolidated Fund	27,942	26,608
Total administered expenses from transactions	27,942	26,486
Total administered net result from transactions (net operating balance)	-	(4)
Administered other economic flows included in administered net result		
Net gain / (loss) on non-financial assets	-	4
Total administered other economic flows	-	4
Administered net result	-	-
Total administered comprehensive result	-	-
Administered financial assets		
Receivables ⁽ⁱ⁾	4,635	3,666
Total administered financial assets	4,635	3,666
Administered non-financial assets		
Work in progress ⁽ⁱⁱ⁾	2,133	1,880
Total administered non-financial assets	2,133	1,880
Total administered assets	6,768	5,546
Administered liabilities		
Amounts owing to the state	6,768	5,546
Total administered liabilities	6,768	5,546
Total administered net assets	-	-

(i) Receivables comprise debtors falling due as follows:

Current	4,141	3,023
Overdue between 30 to 60 days	181	285
Overdue beyond 61 to 90 days	231	358
Overdue beyond 90 days	82	-
	4,635	3,666

Receivables comprise financial statement audit debtors and are deemed wholly collectable.

(ii) Prior year work in progress included a provision of \$1,280,000, deemed to be not a reasonable cost of the audit. This was due to an overestimation of the hourly rates of staff which are built into the internal pricing mechanism.

5. KEY ASSETS AVAILABLE TO SUPPORT OUTPUT DELIVERY

VAGO controls assets that are utilised to fulfil its objectives and conduct its activities. They represent the resources that have been entrusted to VAGO to deliver those outputs.

The initial cost for non-financial physical assets under a finance lease is measured at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease.

Purchased intangible assets are initially recognised at cost. Purchased internally generated intangible assets relating to development of electronic audit toolsets used in financial and performance audit areas are initially recognised at cost when they meet the recognition criteria in *AASB 138 Intangible Assets*.

Internally generated intangible assets are recognised on the basis of demonstrating:

- (a) the technical feasibility of completing the intangible asset so that it will be available for use
- (b) an intention to complete the intangible asset and use it
- (c) the ability to use the intangible asset
- (d) the intangible asset will generate probable future economic benefits
- (e) the availability of adequate technical, financial and other resources to complete the development and to use the intangible asset
- (f) the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation begins when the asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items of property, plant and equipment (PPE) are measured initially at cost. Where an asset is acquired for no or nominal cost, the cost is its fair value at the date of acquisition.

Subsequently they are measured at fair value less accumulated depreciation and impairment. Fair value is normally determined by reference to the asset's depreciated replacement cost, and is summarised below by asset category.

Fair value measurement

Where the assets included in this section are carried at fair value, additional information is disclosed in Note 5.2 in connection with how those fair values were determined.

Purpose groups

Under FRD 103G, PPE are classified primarily by the 'purpose' for which the assets' are used, according to one of six purpose groups based upon government purpose classifications. All assets in a purpose group are further sub-categorised according to the asset's 'nature', with each sub-category being classified as a separate class of asset for financial reporting purposes.

All VAGO PPE is classified as the purpose group 'public administration'.

5.1 Total property, plant and equipment and intangible assets

Classification by nature

	Gross carrying amount		Accumulated depreciation		Net carrying amount	
	2017–18	2016–17	2017–18	2016–17	2017–18	2016–17
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Leasehold improvements	6,011	5,951	(1,373)	(854)	4,638	5,097
Furniture and fittings	113	113	(107)	(106)	6	7
Computer software	286	267	(273)	(267)	13	-
Computer hardware	2,155	1,852	(1,748)	(1,582)	407	270
Office equipment	303	283	(187)	(147)	116	136
Mobile phones	42	42	(42)	(41)	-	1
Motor vehicles—leased	193	361	(38)	(66)	155	295
Intangible assets	1,824	1,807	(1,756)	(1,687)	68	120
Total property, plant and equipment and intangible assets	10,927	10,676	(5,524)	(4,750)	5,403	5,926

5.1.1 Depreciation and impairment

Useful lives

All plant and equipment and other non-financial physical assets that have finite useful lives, are depreciated. Intangible assets with finite useful lives are depreciated as an 'expense from transactions' on a straight-line basis over their useful lives.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, and adjustments made where appropriate.

Depreciation is calculated on a straight-line basis, at rates that allocate the asset's value, less any estimated residual value, over its estimated useful life. Leasehold improvements are depreciated over the shorter of the lease term and their useful lives. Estimated useful lives for the different asset classes for current and prior years are included in the table below.

Asset	Useful life (years)
Leasehold improvements	2-10
Furniture and fittings	10
Computer software	3
Computer hardware	4
Office equipment	5
Mobile phones	2
Motor vehicles—leased	3
Intangible assets	3

The depreciation charge for the period is included in Note 5.1.2.

In the event of the loss or destruction of an asset, the future economic benefits arising from the use of the asset will be replaced (unless a specific decision to the contrary has been made).

Impairment

Non-financial assets, including items of property, plant and equipment and intangibles, are tested for impairment whenever there is an indication that the asset may be impaired. The assets concerned are tested as to whether their carrying value exceeds their recoverable amount. Where an asset's carrying value exceeds its recoverable amount, the difference is written off as an 'other economic flow'.

The recoverable amount for most assets is measured at the higher of current replacement cost and fair value less costs to sell.

Intangible assets with finite useful lives are tested for impairment whenever an indication of impairment is identified.

No assets were impaired in the current reporting period.

5.1.2 Reconciliation of movements in carrying amount of property, plant and equipment and intangible assets, carried at fair value

	Leasehold improvements \$'000	Furniture and fittings \$'000	Computer software \$'000	Computer hardware \$'000	Office equipment \$'000	Mobile phones \$'000	Motor vehicles – leased \$'000	Intangible assets \$'000	Total \$'000
Balance at 1 July 2016	277	4	1	203	35	-	290	94	904
Additions	5,139	5	-	209	115	1	161	70	5,700
Disposals	-	-	-	-	-	-	(95)	-	(95)
Depreciation	(319)	(2)	(1)	(142)	(14)	-	(61)	(44)	(583)
Balance at 30 June 2017	5,097	7	-	270	136	1	295	120	5,926
Additions	61	-	19	303	21	-	73	16	493
Disposals	-	-	-	-	-	-	(177)	-	(177)
Depreciation	(520)	(1)	(6)	(166)	(41)	(1)	(36)	(68)	(839)
Balance at 30 June 2018	4,638	6	13	407	116	-	155	68	5,403

5.2 Fair value determination

Significant judgement: Fair value measurements of assets and liabilities

Fair value determination requires judgement and the use of assumptions. This section discloses the most significant assumptions used in determining fair values. Changes to assumptions could have a material impact on the results and financial position of VAGO.

This section sets out information on how fair value for financial reporting purposes is determined. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The following assets and liabilities are carried at fair value:

- financial assets and liabilities at fair value,
- plant and equipment, and
- other assets and liabilities carried at amortised cost.

Fair value hierarchy

In determining fair values a number of inputs are used. VAGO uses only Level 3 unobservable inputs. Significant unobservable inputs have remained unchanged since June 2017

For those assets and liabilities for which fair values are determined, the following disclosures are provided:

- a reconciliation of the movements in fair values from the beginning of the year to the end; and
- details of significant unobservable inputs used in the fair value determination.

5.2.1 Fair value determination of financial assets and liabilities

The carrying amounts of financial assets and financial liabilities recognised at the balance date, consisting of cash, receivables, payables and borrowings, represent fair value.

5.2.2 Fair value determination: Non-financial physical assets

All non-financial physical assets are classified as Level 3 significant unobservable inputs in the fair value hierarchy. There have been no transfers between levels during the period.

Reconciliation of Level 3 fair value movements

	Property, plant and equipment	
	2017–18	2016–17
	\$'000	\$'000
Balance at 1 July 2017	5,806	810
Additions	477	5,630
Disposals	(177)	(95)
Depreciation	(771)	(539)
Balance at 30 June 2018	5,335	5,806

Description of significant unobservable inputs to Level 3 valuations

<i>2017–18 and 2016–17</i>	<i>Valuation technique</i>	<i>Significant unobservable inputs</i>
Leasehold improvements	Depreciated replacement cost	Depreciated replacement cost per unit Useful life of leasehold improvements
Other property, plant and equipment	Depreciated replacement cost	Depreciated replacement cost per unit Useful life of other property, plant and equipment

6. OTHER ASSETS AND LIABILITIES

This section sets out assets and liabilities arising from operations.

6.1 Receivables

	2017–18	2016–17
	\$'000	\$'000
Contractual		
Lease incentive ⁽ⁱ⁾	-	4,747
Other receivables	1	39
Statutory		
Amounts owing from Victorian Government ⁽ⁱⁱ⁾	19,953	20,735
FBT owing from ATO	-	42
GST input tax credit recoverable	-	55
Total receivables	19,954	25,618
<i>Represented by</i>		
Current receivables	13,332	21,394
Non-current receivables	6,622	4,224
Total receivables	19,954	25,618

(i) Lease incentive is due from the lessor of the VAGO premises.

(ii) The total amount recognised as owing from the Victorian Government was \$19,953,000 (2016–17: \$20,735,000) of which \$13,331,000 (2015–16: \$16,511,000) is likely to be drawn down in the next financial year and is reported accordingly as a current receivable.

The amount recognised as owing from the Victorian Government comprises previously applied Parliamentary appropriations not yet drawn down. The balance is represented by accumulated surpluses, payables, movements in provisions and accumulated depreciation and amortisation net of asset acquisition.

Contractual receivables are classified as financial instruments and categorised as 'receivables'. They are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial measurement they are measured at amortised cost using the effective interest method, less any impairment.

Statutory receivables do not arise from contracts and are recognised and measured similarly to contractual receivables (except for impairment), but are not classified as financial instruments. Amounts recognised from the Victorian Government represent funding for all commitments incurred and are drawn from the Consolidated Fund as the commitments fall due.

Ageing analysis of contractual financial assets⁽ⁱ⁾

	Carrying amount \$'000	Not past due and not impaired \$'000	Past due but not impaired			
			Less than 1 month \$'000	1–3 months \$'000	3 months– 1 year \$'000	1–5 years \$'000
2017–18						
Lease incentive	-	-	-	-	-	-
Other receivables	1	1	-	-	-	-
Total	1	1	-	-	-	-
2016–17						
Lease incentive	4,747	3,569	1,178	0	0	0
Other receivables	39	39	-	-	-	-
Total	4,786	3,608	1,178	-	-	-

(i) The carrying amounts disclosed here exclude statutory amounts (e.g. Amounts owing from Victorian Government and GST input tax credit recoverable).

There are no material contractual financial assets that are individually determined to be impaired. Currently VAGO does not hold any collateral as security nor credit enhancements relating to any of its financial assets.

There are no contractual financial assets that have had their terms renegotiated so as to prevent them from being past due or impaired, and they are stated at the carrying amounts as indicated.

6.2 Other non-financial assets

	2017–18 \$'000	2016–17 \$'000
Current other non-financial assets		
Prepaid software and hardware maintenance contracts	284	191
Prepaid rental expense—accommodation	176	168
Other prepayments	71	101
Accrued income—recovery of expenses	10	73
Total current other non-financial assets	541	533
Non-current other non-financial assets		
Prepaid software and hardware maintenance contracts	24	4
Total non-current other non-financial assets	24	4
Total other non-financial assets	565	537

Other non-financial assets include prepayments and accrued income. Prepayments represent payments in advance of receipt of goods or services or that part of expenditure made in one accounting period covering a term extending beyond that period. Accrued income represents amounts not received at the balance sheet date in exchange for the provision of services in the reporting period.

6.3 Payables

	2017–18 \$'000	2016–17 \$'000
Contractual		
Supplies and services ⁽ⁱ⁾	2,962	3,840
Amounts payable to government and agencies ⁽ⁱⁱ⁾	4,750	8,552
Lease incentive ⁽ⁱⁱⁱ⁾	4,167	4,636
Other payables ^(iv)	441	2,458
Statutory		
FBT payable	17	-
GST payable	123	-
Payroll tax payable	86	74
Total payables	12,546	19,560
<i>Represented by</i>		
Current payables	8,846	10,721
Non-current payables	3,700	8,839
Total payables	12,546	19,560

(i) Supplies and services is principally comprised of payables due to audit service providers.

(ii) Amounts payable to government and agencies is principally comprised of a public account advance under section 37 FMA of \$4.67 million. See Note 2.1 for further information.

(iii) Lease incentive payable relates to funding provided by the lessor of the new VAGO premises. This is amortised over the term of the lease.

(iv) Other payables in 2017–18 were general salary accruals. In the prior year, they principally comprised an accrual for termination payments for employees.

Payables consist of:

contractual payables, classified as financial instruments, measured at amortised cost. Accounts payable represent liabilities for goods and services provided prior to the end of the financial year that are unpaid, and

statutory payables, are recognised and measured similarly to contractual payables, but not classified as financial instruments and not included in the category of financial liabilities at amortised cost, because they do not arise from contracts.

Payables for supplies and services have an average credit period of 30 days.

The terms and conditions of amounts payable to the government and agencies vary according to the particular agreements and as they are not legislative payables, they are not classified as financial instruments.

For the maturity analysis of contractual payables, see Note 8.1.2.

6.4 Non-employee related provisions

	2017–18 \$'000	2016–17 \$'000
Non-current provisions		
Lease contracts	316	24
Make-good provision	463	451
Total non-current provisions	779	475
Total non-employee related provisions	779	475

These provisions are recognised when VAGO has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows, using a discount rate that reflects the time value of money and risks specific to the provision.

The provision for lease contracts reflects a requirement to provide for known future increases in operating lease rentals for the lease of VAGO's premises.

The make-good provision reflects a requirement in the terms of the lease of VAGO's premises to restore the property at the end of the lease term.

Reconciliation of movements in non-employee related provisions

	Lease contracts \$'000	Make-good \$'000	Total \$'000
Opening balance at 1 July 2017	24	451	475
Additional provisions recognised	292	12	304
Provisions released	-	-	-
Closing balance at 30 June 2018	316	463	779

7. HOW WE FINANCED OPERATIONS

This section provides information on the sources of finance utilised by VAGO during its operations and other information related to financing activities of VAGO.

This section includes disclosures of balances that are financial instruments (such as borrowings and cash balances). Note 8.1 provides additional, specific financial instrument disclosures.

7.1 Finance lease liabilities (VAGO as lessee)

	Minimum future lease payments ⁽ⁱⁱⁱ⁾		Present value of minimum future lease payments	
	2017–18	2016–17	2017–18	2016–17
	\$'000	\$'000	\$'000	\$'000
Finance lease liabilities payable⁽ⁱ⁾⁽ⁱⁱ⁾				
Not longer than one year	45	90	45	89
Longer than 1 year and not longer than 5 years	118	222	110	208
Minimum future lease payments	163	312	155	297
Less future finance charges	(8)	(15)	-	-
Present value of minimum lease payments	155	297	155	297
Included in the financial statements as:				
Current borrowings			41	82
Non-current borrowings			114	215
Total			155	297

(i) Secured by the motor vehicle assets leased. Finance leases are effectively secured as the rights to the leased assets revert to the lessor in the event of default.

(ii) None of the borrowings related to PPPs.

(iii) Minimum future lease payments include the aggregate of all base payments and any guaranteed residual.

At the commencement of the lease term, finance leases are initially recognised as assets and liabilities at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payment, each determined at the inception of the lease. The leased asset is accounted for as a non-financial physical asset and depreciated over the shorter of the estimated useful life of the asset or the term of the lease. Minimum finance lease payments are apportioned between the reduction of the outstanding lease liability and the periodic finance expense which is calculated using the interest rate implicit in the lease and charged directly to the Comprehensive Operating Statement.

Leasing arrangements: Finance leases relate to motor vehicles with lease terms of up to 3 years. VAGO does not have the option to purchase the vehicles at the conclusion of the lease agreements.

For the maturity analysis of borrowings, see Note 8.1.2.

7.2 Cash flow information and balances

Cash comprises cash on hand.

	2017–18 \$'000	2016–17 \$'000
Total cash disclosed in the balance sheet	1	1
Balance as per cash flow statement	1	1

Due to the State's investment policy and funding arrangements, VAGO does not hold a cash reserve in its bank accounts. Cash received from generation of income is paid into the State's bank account ('public account'). Similarly, VAGO's expenditure is made via the public account. The public account remits to VAGO the cash required upon presentation of cheques by VAGO's suppliers or creditors.

7.2.1 Reconciliation of net result for the period to cash flow from operating activities

	2017–18 \$'000	2016–17 \$'000
Net result for the period	2,013	(3,144)
Non-cash movements		
(Gain) / loss on disposal of non-current assets	29	2
Depreciation of non-current assets	839	583
Movements in assets and liabilities		
(Increase) / decrease in receivables	5,665	(8,657)
(Increase) / decrease in prepayments	(28)	(55)
Increase / (decrease) in payables	(7,014)	15,945
Increase / (decrease) in provisions	(1,016)	(556)
Net cash flows from / (used in) operating activities	488	4,118

7.3 Commitments for expenditure

Commitments for future expenditure include operating and capital commitments arising from contracts. These commitments are recorded below at their nominal value and inclusive of GST. These future expenditures cease to be disclosed as commitments once the related liabilities are recognised in the balance sheet.

7.3.1 Lease commitments

	2017–18 \$'000	2016–17 \$'000
Operating lease commitments payable⁽ⁱ⁾		
Less than 1 year	2,354	2,223
Longer than 1 year but not longer than 5 years	10,657	9,722
5 years or more	12,731	13,989
Total operating lease commitments payable	25,742	25,934
Contract audit service commitments payable		
Less than 1 year	6,853	4,668
Longer than 1 year but not longer than 5 years	2,533	3,567
5 years or more	-	-
Total contract audit service commitments payable	9,386	8,235
Total commitments (inclusive of GST)	35,128	34,169
Less GST recoverable from the Australian Taxation Office	(3,193)	(3,106)
Total commitments (exclusive of GST)	31,935	31,063

(i) Operating lease commitments relate to office accommodation with a lease term of 10 years

7.4 Contingent assets and contingent liabilities

At the reporting date, VAGO was not aware of any contingent assets or contingent liabilities.

8. RISKS AND VALUATION JUDGEMENTS

VAGO is exposed to risk from its activities and outside factors. In addition, it is often necessary to make judgements and estimates associated with recognition and measurement of items in the financial statements. This section sets out financial instrument specific information, including exposures to financial risks.

8.1 Financial instruments specific disclosures

Financial instruments arise out of contractual agreements that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Due to the nature of VAGO's activities, certain financial assets and financial liabilities arise under statute rather than a contract (for example taxes). Such assets and liabilities do not meet the definition of financial instruments in AASB 132 *Financial Instruments: Presentation*.

Categories of financial instruments

Receivables and cash are financial instrument assets with fixed and determinable payments that are not quoted on an active market. These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial measurement, receivables are measured at amortised cost using the effective interest method (and for assets, less any impairment). VAGO recognises the following assets in this category:

- cash
- receivables (excluding statutory receivables).

Financial liabilities at amortised cost are initially recognised on the date they originated. They are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial instruments are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the interest-bearing liability using the effective interest rate method. VAGO recognises the following liabilities in this category:

- payables (excluding statutory payables)
- finance lease liabilities.

Impairment of financial assets: At the end of each reporting period, VAGO assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. All financial instrument assets, except those measured at fair value through profit or loss, are subject to annual review for impairment.

The allowance is the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. In assessing impairment of statutory (non-contractual) financial assets, which are not financial instruments, professional judgement is applied in assessing materiality using estimates, averages and other computational methods in accordance with AASB 136 *Impairment of Assets*.

Derecognition of financial liabilities: A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

8.1.1 Financial instruments: Categorisation

	2017–18 \$'000	2016–17 \$'000
Contractual financial assets—receivables and cash		
Cash	1	1
Receivables⁽ⁱ⁾		
Lease incentive and other receivables	1	4,786
Total contractual financial assets	2	4,787
Contractual financial liabilities at amortised cost		
Payables⁽ⁱ⁾		
Supplies and services	2,962	3,840
Amounts payable to government and agencies	4,750	8,552
Lease incentive	4,167	4,636
Other payables	441	2,458
Borrowings		
Finance lease liabilities	155	297
Total contractual financial liabilities	12,475	19,783

(i) The total amounts disclosed here exclude statutory amounts (e.g. amounts owing from Victorian Government and GST input tax credit recoverable and taxes payable). Statutory financial assets will be used to cover payment of contractual financial liabilities.

8.1.2 Financial risk management objectives and policies

This section sets out financial instrument specific information, (including exposures to financial risks) as well as those items that are contingent in nature or require a higher level of judgement to be applied, which for VAGO related mainly to fair value determination.

VAGO's financial risk management program seeks to manage these risks and the associated volatility of its financial performance.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised, with respect to each class of financial asset, financial liability and equity instruments are disclosed in Note 5.2 to the financial statements.

The main purpose in holding financial instruments is to prudently manage VAGO's business.

VAGO's main financial risks include credit risk, liquidity risk and interest rate risk. These financial risks are managed in accordance with the financial risk management policy.

VAGO uses different methods to measure and manage the different risks to which it is exposed. Primary responsibility for the identification and management of financial risks rests with the Accountable Officer.

The following table discloses the contractual maturity analysis for VAGO's contractual financial liabilities:

Maturity analysis of contractual financial liabilities⁽ⁱ⁾

	Carrying amount	Nominal amount	Maturity dates				
			Less than 1 month	1–3 months	3 months – 1 year	1–5 years	5+ years
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2017–18							
Payables⁽ⁱⁱ⁾							
Supplies and services	2,962	2,962	2,966	(6)	2	-	-
Amounts payable to government and agencies	4,750	4,750	80	-	4,670	-	-
Lease incentive	4,167	4,167	39	78	351	1,869	1,830
Other payables	441	441	441	-	-	-	-
Borrowings							
Finance lease liabilities	155	163	3	6	36	118	-
	12,475	12,483	3,529	78	5,059	1,987	1,830
2016–17							
Payables⁽ⁱⁱ⁾							
Supplies and services	3,840	3,840	3,840	-	-	-	-
Amounts payable to government and agencies	8,552	8,552	12	-	3,870	4,670	-
Lease incentive	4,636	4,636	39	78	351	1,869	2,299
Other payables	2,458	2,458	2,458	-	-	-	-
Borrowings							
Finance lease liabilities	297	312	33	10	47	222	-
	19,783	19,798	6,382	88	4,268	6,761	2,299

(i) Maturity analysis is presented using the contractual undiscounted cash flows.

(ii) The carrying amounts disclosed exclude statutory amounts (e.g. GST payables).

The carrying amounts of financial assets and financial liabilities that are exposed to interest rates and VAGO's sensitivity to interest rate risk are set out in the table below.

Interest rate exposure of financial instruments

	Weighted average interest rate Per cent	Carrying amount \$'000	Fixed interest rate \$'000	Variable interest rate \$'000	Non- interest bearing \$'000
2017–18					
Financial assets					
Cash		1	-	-	1
Receivables ⁽ⁱ⁾					
Lease incentive and other receivables		1	-	-	1
Total financial assets		2	-	-	2
Financial liabilities					
Payables ⁽ⁱ⁾					
Supplies and services		2,962	-	-	2,962
Amounts payable to government and agencies		4,750	-	-	4,750
Lease incentive		4,167	-	-	4,167
Other payables		441	-	-	441
Borrowings					
Finance lease liabilities	3.52	155	155	-	-
Total financial liabilities		12,475	155	-	12,320
2016–17					
Financial assets					
Cash		1	-	-	1
Receivables ⁽ⁱ⁾					
Lease incentive and other receivables		4,786	-	-	4,786
Total financial assets		4,787	-	-	4,787
Financial liabilities					
Payables ⁽ⁱ⁾					
Supplies and services		3,840	-	-	3,840
Amounts payable to government and agencies		8,552	-	-	8,552
Lease incentive		4,636	-	-	4,636
Other payables		2,458	-	-	2,458
Borrowings					
Finance lease liabilities	3.48	297	297	-	-
Total financial liabilities		19,783	297	-	19,486

(i) The carrying amounts disclosed here exclude statutory amounts (e.g. amounts owing from Victorian Government, GST input tax credit recoverable, and GST payables).

9. OTHER DISCLOSURES

This section includes additional material disclosures required by accounting standards, for the understanding of this financial report.

9.1 Responsible persons

Given the independent relationship of the Auditor-General with the Parliament, no Government Minister has any direct responsibility for the operations of VAGO. The following disclosures are made relating to the Accountable Officer in accordance with the Directions of the Minister for Finance under the *Financial Management Act 1994*:

Andrew Greaves, Auditor-General held the Accountable Officer Position in relation to VAGO for the full year.

Remuneration

Remuneration received or receivable by the substantive and acting Accountable Officers in connection with the responsibilities of the position during the reporting period was in the following ranges:

	2017–18	2016–17
	No.	No.
\$520,000–\$529,999 (substantive)	1	-
\$390,000–\$399,999 (substantive)	-	1
\$110,000–\$119,999 (acting)	-	1
\$20,00–\$29,999 (acting)	1	-

9.2 Remuneration of executives

The number of executive officers, other than the substantive and acting Accountable Officers, and their total remuneration during the reporting period are shown in the table below. Total annualised employee equivalent provides a measure of full-time equivalent executive officers over the reporting period.

Remuneration comprises employee benefits in all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered, and is disclosed in the following categories.

Short-term employee benefits include amounts such as wages, salaries, annual leave or sick leave that are usually paid or payable on a regular basis, as well as non-monetary benefits such as allowances and free or subsidised goods or services.

Post-employment benefits include pensions and other retirement benefits paid or payable on a discrete basis when employment has ceased.

Other long-term benefits includes long service leave.

Termination benefits include termination of employment payments, such as severance packages.

Several factors affected total remuneration payable to executives in the comparative year 2016–17. A number of executive officers retired, resigned or were retrenched in the prior year. This had a significant impact on remuneration figures for the termination benefits category.

The remuneration amounts disclosed below are measured on the same basis as required by AASB 119 *Employee Benefits*.

Remuneration of executive officers (including Key Management Personnel disclosed in Note 9.3)

	Total remuneration	
	2017–18	2016–17
	\$'000	\$'000
Short-term employee benefits	4,116	4,192
Post-employment benefits	421	450
Other long-term benefits	97	543
Termination benefits	(43)	1,161
Total remuneration	4,591	6,346
Total number of executives⁽ⁱ⁾	32	31
Total annualised employee equivalents⁽ⁱⁱ⁾	22.4	24.8

(i) The total number of executive officers includes persons who meet the definition of Key Management Personnel (KMP) of the entity under AASB 124 *Related Party Disclosures* and are also reported within the related parties note disclosure (Note 9.3).

(ii) Annualised employee equivalent is based on the time fraction worked over the reporting period.

9.3 Related parties

VAGO is a wholly owned and controlled entity of the State of Victoria. Related parties of VAGO include:

- all key management personnel and their close family members and personal business interests (controlled entities, joint ventures and entities they have significant influence over),
- all cabinet ministers and their close family members, and
- all departments and public sector entities that are controlled and consolidated into the whole of state consolidated financial statements.

All related party transactions have been entered into on an arm's length basis.

Significant transactions with government-related entities

VAGO received funding and made payments to the Consolidated Fund of \$45.1 million (2016–17: \$43.4 million) and \$27.9 million (2016–17: \$26.6 million) respectively.

During the year, VAGO had the following government-related entity transactions:

Nature of transaction	Amount \$'000
Revenue from financial statement audits	
Department of Treasury and Finance	1,358
Other government related parties ⁽ⁱ⁾	26,585
Total significant transactions with government-related entities	27,943

(i) Transactions with other related parties are collectively, but not individually significant.

Key management personnel of VAGO include the Accountable Officer and members of the Senior Management Group (SMG), which includes:

- David Barry, Deputy Auditor-General
- Craig Burke, Assistant Auditor-General, Financial Audit (ceased 7 July 2017)
- Renee Cassidy, Assistant Auditor-General, Performance Audit (appointed 3 July 2017)
- Susan Fraser, Assistant Auditor-General, Technical Audit Services
- Peter Frost, Chief Executive Officer / Deputy Auditor-General (ceased 7 July 2017)
- Nancy Stefanovski, Executive Director, Audit Support Group (ceased 11 August 2017)
- Bill Gilhooly, Assistant Auditor-General, Financial Audit (appointed 3 July 2017)
- Chris Sheard, Executive Director, Audit Support Group (ceased 7 July 2017)
- Steven Vlahos, Assistant Auditor-General, Performance Audit (ceased 7 July 2017)

Compensation of KMPs

	VAGO⁽ⁱ⁾	
	2017–18	2016–17
	\$'000	\$'000
Short-term employee benefits	1,673	1,965
Post-employment benefits	155	216
Other long-term benefits	89	479
Termination benefits ⁽ⁱⁱ⁾	43	1,148
Total⁽ⁱⁱⁱ⁾	1,960	3,808

(i) No entities were consolidated pursuant to section 53(1)(b) of the FMA into VAGO's financial statements.

(ii) Termination benefits for 2017–18 exclude accrued termination benefits for four KMPs (including one who ceased in June 2017) whose termination payments were made in July 2017. These payments are included in the termination benefits figure for 2016–17.

(iii) Note that KMPs are also reported in the disclosure of responsible persons (Note 9.1) and remuneration of executives (Note 9.2).

Transactions and balances with key management personnel and other related parties

There were no related party transactions that involved key management personnel, their close family members and their personal business interests in the current reporting period.

9.4 Remuneration of auditors

	2017–18	2016–17
	\$'000	\$'000
Nexia Melbourne Audit Pty Ltd		
Audit of the financial statements	33	33

The auditor of VAGO is appointed by Parliament and paid by the Public Accounts and Estimates Committee in accordance with the *Audit Act 1994*. Mr Geoff Parker from Nexia Melbourne Audit Pty Ltd was appointed to this position in 2016. No other services were provided.

As the remuneration of the auditor is paid by the Public Accounts and Estimates Committee, the amount disclosed above is included in 'fair value of services received free of charge or for nominal consideration' in Note 2.2.1.

9.5 Subsequent events

VAGO had no events that occurred between the end of the reporting period and the date when the financial statements are authorised for issue that would require adjustment to, or disclosure in our financial statements.

9.6 Other accounting policies

Contributions by owners

Consistent with the requirements of AASB 1004 Contributions, contributions by owners (that is, contributed capital and its repayment) are treated as equity transactions and, therefore, do not form part of the income and expenses of VAGO.

9.7 Australian Accounting Standards issued that are not yet effective

The table below outlines the accounting pronouncements that have been issued but not effective for 2017–18, which may result in potential impacts on VAGO reporting for future reporting periods.

Topic	Key requirements	Effective date	Likely impact on initial application
AASB 9 <i>Financial Instruments</i>	The key changes introduced by AASB 9 include simplified requirements for the classification and measurement of financial assets, a new hedging accounting model and a revised impairment loss model to recognise impairment losses earlier, as opposed to the current approach that recognises impairment only when incurred.	1 January 2018	No material impact expected.
AASB 2014-1 <i>Amendments to Australian Accounting Standards [Part E Financial Instruments]</i>	Amends various AASs to reflect the AASB's decision to defer the mandatory application date of AASB 9 to annual reporting periods beginning on or after 1 January 2018, and to amend Reduced Disclosure requirements.	1 January 2018	No material impact expected.
AASB 2014-7 <i>Amendments to Australian Accounting Standards arising from AASB 9</i>	Amends various AASs to incorporate the consequential amendments arising from the issuance of AASB 9.	1 January 2018	No material impact expected.
AASB 15 <i>Revenue from Contracts with Customers</i>	The core principle of AASB 15 requires an entity to recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to a customer. Note that amending standard AASB 2015-8 <i>Amendments to Australian Accounting Standards – Effective Date of AASB 15</i> has deferred the effective date of AASB 15 to annual reporting periods beginning on or after 1 January 2018, instead of 1 January 2017.	1 January 2018	VAGO has yet to undertake a detailed assessment of the impact of this pronouncement.

Topic	Key requirements	Effective date	Likely impact on initial application
AASB 2014-5 <i>Amendments to Australian Accounting Standards arising from AASB 15</i>	<p>Amends the measurement of trade receivables and the recognition of dividends as follows:</p> <p>Trade receivables, that do not have a significant financing component, are to be measured at their transaction price, at initial recognition.</p> <p>Dividends are recognised in the profit and loss only when:</p> <ul style="list-style-type: none"> the entity's right to receive payment of the dividend is established; it is probable that the economic benefits associated with the dividend will flow to the entity; and the amount can be measured reliably. 	1 January 2018, except amendments to AASB 9 (Dec 2009) and AASB 9 (Dec 2010) apply 1 January 2018.	No material impact expected.
AASB 2015-8 <i>Amendments to Australian Accounting Standards – Effective Date of AASB 15</i>	This standard defers the mandatory effective date of AASB 15 from 1 January 2017 to 1 January 2018.	1 January 2018	No material impact expected.
AASB 2016-3 <i>Amendments to Australian Accounting Standards – Clarifications to AASB 15</i>	<p>This Standard amends AASB 15 to clarify requirements for identifying performance obligations, principal versus agent considerations and the timing of recognising revenue from granting a licence.</p> <p>The amendments require:</p> <ul style="list-style-type: none"> a promise to transfer to a customer a good or service that is 'distinct' to be recognised as a separate performance obligation; for items purchased online, the entity is a principal if it obtains control of the good or service prior to transferring to the customer; and for licences identified as being distinct from other goods or services in a contract, entities need to determine whether the licence transfers to the customer over time (right to use) or at a point in time (right to access). 	1 January 2018	VAGO has yet to undertake a detailed assessment of the impact of this pronouncement.
AASB 2016-7 <i>Amendments to Australian Accounting Standards – Deferral of AASB 15 for Not-for-Profit Entities</i>	This standard defers the mandatory effective date of AASB 15 for not-for-profit entities from 1 January 2018 to 1 January 2019.	1 January 2019	VAGO has yet to undertake a detailed assessment of the impact of this pronouncement.

Topic	Key requirements	Effective date	Likely impact on initial application
AASB 2016-8 <i>Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities</i>	<p>This Standard amends AASB 9 and AASB 15 to include requirements and implementation guidance to assist not-for-profit entities in applying the respective standards to particular transactions and events.</p> <p>The amendments:</p> <ul style="list-style-type: none"> • require non-contractual receivable arising from statutory requirements (i.e. taxes, rates and fines) to be initially measured and recognised in accordance with AASB 9 as if those receivables are financial instruments; and • clarifies circumstances when a contract with a customer is within the scope of AASB 15. 	1 January 2019	VAGO has yet to undertake a detailed assessment of the impact of this pronouncement.
AASB 16 <i>Leases</i>	The key changes introduced by AASB 16 include the recognition of most operating leases (which are currently not recognised) on balance sheet which has an impact on net debt.	1 January 2019	The implementation of this pronouncement is likely to materially increase assets and liabilities on the Balance Sheet. It is not expected to have a significant impact on the Comprehensive Operating Statement.
AASB 1058 <i>Income of Not-for-Profit Entities</i>	This standard will replace AASB 1004 <i>Contributions</i> and establishes principles for transactions that are not within the scope of AASB 15, where the consideration to acquire an asset is significantly less than fair value to enable not-for-profit entities to further their objectives. The restructure of administrative arrangement will remain under AASB 1004.	1 January 2019	No material impact expected.

9.8 Glossary of technical terms

The following is a summary of the major technical terms used in this report.

Actuarial gains or losses on superannuation defined benefit plans are changes in the present value of the superannuation defined benefit liability resulting from:

- (a) experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and
- (b) the effects of changes in actuarial assumptions.

Administered item generally refers to VAGO lacking the capacity to benefit from that item in the pursuit of its objectives and to deny or regulate the access of others to that benefit.

Borrowings refers to interest-bearing liabilities raised from finance leases.

Commitments include those operating, capital and other outsourcing commitments arising from non-cancellable contractual or statutory sources.

Comprehensive result is the amount included in the operating statement representing total change in net worth other than transactions with owners as owners.

Controlled item generally refers to the capacity of VAGO to benefit from that item in the pursuit of its objectives and to deny or regulate the access of others to that benefit.

Depreciation is an expense that arises from the consumption through wear or time of a produced physical or intangible asset. This expense is classified as a 'transaction' and so reduces the 'net result from transactions'.

Effective interest method is the method used to calculate the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, where appropriate, a shorter period.

Employee benefits expenses include all costs related to employment including wages and salaries, fringe benefits tax, leave entitlements, termination payments, WorkCover premiums, defined benefits superannuation plans, and defined contribution superannuation plans.

Financial asset is any asset that is:

- (a) cash;
- (b) a contractual right:
 - to receive cash or another financial asset from another entity; or
 - to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

Financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability of another entity.

Financial liability is any liability that is:

A contractual obligation:

- (i) To deliver cash or another financial asset to another entity; or
- (ii) To exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.

Financial statements comprises:

- (a) a Balance Sheet as at the end of the period;
- (b) a Comprehensive Operating Statement for the period;
- (c) a Statement of Changes in Equity for the period;
- (d) a Cash Flow Statement for the period;
- (e) notes comprising a summary of significant accounting policies and other explanatory information;
- (f) comparative information in respect of the preceding period as specified in paragraph 38 of AASB 101 *Presentation of Financial Statements*; and
- (g) a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraphs 41 of AASB 101.

General government sector comprises all government departments, offices and other bodies engaged in providing services free of charge or at prices significantly below their cost of production. General government services include those which are mainly non-market in nature, those that are largely for collective consumption by the community and those which involve the transfer or redistribution of income. These services are financed mainly through taxes, or other compulsory levies and user charges.

Interest expense represents costs incurred in connection with borrowings. It includes interest components of finance lease repayments, and amortisation of discounts or premiums in relation to borrowings.

Leases are rights to use an asset for an agreed period of time in exchange for payment. Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and rewards incidental to ownership. Leases of infrastructure, property, plant and equipment are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership from the lessor to the lessee. All other leases are classified as operating leases.

Net operating balance or net result from transactions is a key fiscal aggregate and is revenue from transactions minus expenses from transactions. It is a summary measure of the ongoing sustainability of operations. It excludes gains and losses resulting from changes in price levels and other changes in the volume of assets. It is the component of the change in net worth that is due to transactions and can be attributed directly to government policies.

Net result is a measure of financial performance of the operations for the period. It is the net result of items of income, gains and expenses (including losses) recognised for the period, excluding those that are classified as 'other non-owner movements in equity'.

Net worth is calculated as assets less liabilities, which is an economic measure of wealth.

Non-financial assets are all assets that are not financial assets. It includes plant and equipment, intangible assets, and prepayments and accrued income.

Other economic flows included in net result are changes in the volume or value of an asset or liability that do not result from transactions. In simple terms, other economic flows are changes arising from market remeasurements. They include gains and losses from disposals, and impairments of non-current physical and intangible assets; and gains and losses arising from the revaluation of the long service leave liability.

Payables includes short and long-term trade debt and accounts payable, taxes and interest payable.

Produced assets include plant and equipment and certain intangible assets. Intangible produced assets include computer software.

Receivables include amounts owing from government through appropriation receivable, short and long-term trade credit and accounts receivable, and taxes receivable.

Supplies and services generally represent cost of goods sold and the day-to-day running costs, including maintenance costs, incurred in the normal operations of VAGO.

Transactions are those economic flows that are considered to arise as a result of policy decisions, usually an interaction between two entities by mutual agreement. They also include flows in an entity such as depreciation, where the owner is simultaneously acting as the owner of the depreciating asset and as the consumer of the service provided by the asset. Taxation is regarded as mutually agreed interactions between the government and taxpayers. Transactions can be in kind (e.g. assets provided/given free of charge or for nominal consideration) or where the final consideration is cash. In simple terms, transactions arise from the policy decisions of the government.

Appendix A

Workforce profile

Figure A1
Profile of VAGO employees

	All employees		Ongoing			Fixed term and casual	
	Number (headcount)	Full-time equivalent	Full-time (headcount)	Part-time (headcount)	Full-time equivalent	Number (headcount)	Full-time equivalent
As at 30 June 2018							
Gender							
Women	101	95.8	69	19	83.2	13	12.6
Men	83	82.6	77	2	78.6	4	4.0
Age							
15–24	7	7.0	6	–	6.0	1	1.0
25–34	69	67.8	55	3	57.2	11	10.6
35–44	70	66.5	53	14	63.5	3	3.0
45–54	28	27.1	22	4	25.1	2	2.0
55–64	8	8.0	8	–	8.0	–	–
Over 64	2	2.0	2	–	2.0	–	–
Classification							
VPS 2	8	8.0	6	–	6.0	2	2.0
VPS 3	40	40.0	34	–	34.0	6	6.0
VPS 4	29	27.5	20	3	21.9	6	5.6
VPS 5	40	38.7	34	5	37.7	1	1.0
VPS 6	38	35.7	26	10	33.7	2	2.0
Senior Technical Specialists	2	2.0	2	–	2.0	–	–
Executives	26	25.5	23	3	25.5	–	–
Auditor-General	1	1.0	1	–	1.0	–	–
Total employees	184	178.4	146	21	161.8	17	16.6
As at 30 June 2017							
Gender							
Women	105	98.6	80	20	93.8	5	4.8
Men	81	80.0	71	3	73.0	7	7.0
Age							
15–24	6	6.0	3	–	3.0	3	3.0
25–34	63	61.0	56	3	57.0	4	4.0
35–44	64	60.8	50	12	59.0	2	1.8
45–54	36	34.2	27	7	32.2	2	2.0
55–64	13	13.0	12	–	12.0	1	1.0
Over 64	4	3.6	3	1	3.6	–	–
Classification							
VPS 2	8	8.0	6	–	6.0	2	2.0
VPS 3	34	33.6	30	–	29.6	4	4.0
VPS 4	28	26.4	22	3	23.4	3	3.0
VPS 5	43	41.0	36	5	39.2	2	1.8
VPS 6	44	41.2	31	12	40.2	1	1.0
Senior Technical Specialists	5	4.8	4	1	4.8	–	–
Executives	23	22.6	21	2	22.6	–	–
Auditor-General	1	1.0	1	–	1.0	–	–
Total employees	186	178.6	151	23	166.8	12	11.8

Appendix B

Workplace health and safety

VAGO's commitment to workplace health and safety (WHS) continued in 2017–18. We focused on embedding our new WHS policy and procedures, and launching our new Workplace Health and Safety, and Appropriate Behaviour eLearning modules for both existing employees and new employees as part of their induction. We took a more active approach to managing incident reporting and workplace inspection procedures. In the last half of the financial year, we also launched a series of wellbeing seminars and activities.

In 2017–18, there were 14 WHS incidents reported—10 more than in 2016–17. This was due to our improved incident reporting procedures. The incident rate per 100 full-time equivalent staff in 2017–18 was 7.85.

There were two standard WorkCover claims lodged in 2017–18.

Figure A1
WorkCover claims

Claims and rate	2014–15	2015–16	2016–17	2017–18
Number of standard claims ^(a)	3	2	1	2
Rate per 100 full-time equivalent	1.70	1.20	0.53	1.12

(a) Standardised claims are those that have exceeded the employer excess or are registered as a standard claim and are open with no payments as at 30 June 2018.

Source: Data supplied by WorkSafe Victoria.

In 2017–18, there was one lost-time claim.

Figure A2
Lost time and average cost of claims

Lost time and cost	2014–15	2015–16	2016–17	2017–18
Number of lost-time claims ^(a)	3	2	0	1
Average cost of claims ^(b)	\$43 343	\$211 807	\$725	\$20 421

(a) A lost-time claim is one with one or more days compensated by WorkSafe Victoria (after employer excess) as at 30 June 2018. They are a subset of standardised claims.

(b) Based on claims reported between 1 July 2017 and 30 June 2018. Claims include employer and VWA payments to date, plus an estimate of outstanding claims costs (further costs as calculated by the VWA's statistical case estimate model).

Source: Data supplied by WorkSafe Victoria.

During 2017–18, the Health and Safety Committee:

- reviewed and approved revised WHS procedures
- organised workplace inspections of the whole office to identify hazards and agree on solutions to remove or minimise them
- promoted wellbeing events to all staff
- organised free flu vaccinations for staff
- considered the nature of injuries and incidents that occurred during the year, including identification of hazard management strategies.

Our performance against our WHS performance indicators is shown below.

Figure A3
Workplace health and safety performance against indicators

Performance indicator	Performance
All new and existing staff are offered ergonomic assessments and required products are sourced and purchased	All employees are provided with access to a 'Safe Workstation Set-up' online module upon commencement. An ergonomic assessment can be arranged if there are still concerns after the module is completed.
All claims received are lodged with WorkCover within 10 working days	100 per cent
All reported incidents and accidents are followed up within 24 hours and closed as soon as is practicable	100 per cent
Return-to-work plans are in place as soon as is practicable, and regularly monitored until complete	100 per cent
A report on the number of claims and costs is provided to the Operational Management Group as required	Reported as required
Health and Safety Committee meets quarterly	Four meetings were held in 2017–18, which meets the requirements of the <i>Occupational Health and Safety Act 2004</i> .

Appendix C

General executive information

In 2017–18, none of our executive officers were involved in carrying out any special projects. All of our executive officers have completed statements declaring whether their interests, shares in, and other benefits from business enterprises could give rise to a conflict of interest. We have processes in place to manage any such conflicts. Further information on the number of our executive officers, by particular classifications, are provided in the figures below.

Figure C1
Annualised total salary, by \$20 000 bands, for executives and other senior non-executive staff

Income band (salary)	Executives	Senior Technical Specialists
\$140 000–\$159 999	–	1
\$160 000–\$179 999	19 ^(a)	1
\$180 000–\$199 999	3	–
\$220 000–\$239 999	2 ^(b)	–
\$240 000–\$259 999	1	–
\$340 000–\$359 999	1	–
Total	26	2

Note: The salaries reported above are for the full financial year, at a 1 full-time equivalent rate, and excludes superannuation. The Auditor-General is not included in this table.

(a) There are two employees employed on a part-time basis at a 0.8 full-time equivalent rate.

(b) There is one employee employed on a part-time basis at a 0.9 full-time equivalent rate.

Figure C2
Number of executive officers by classification, at June 30 2018

Classification	Total (ongoing)		Vacancies	Male		Female	
	No.	Var. ^(a)		No.	Var.	No.	Var.
EO1	1	-1	0	1	-1	0	0
EO2	3	-2	0	1	-3	2	1
EO3	22	6	0	15	8	7	-2
Total	26	3	0	17	4	9	-1

Note: The Auditor-General is not included in this table.

(a) 'Var.' refers to variance in the numbers reported for June 2017.

The number of executives in the Report of Operations is based on the number of executive positions that are occupied at the end of the financial year. Note 9.2 in the financial statements lists the actual number of EOs and the total remuneration paid to EOs over the course of the reporting period. The financial statements note does not include the Accountable Officer, nor does it distinguish between executive levels or disclose separations. Separations are executives who have left VAGO during the relevant reporting period. To assist readers, these two disclosures are reconciled below.

Figure C3
Reconciliation of executive numbers, June 2018 and June 2017

Remuneration and vacancies	2018	2017
Executives (Financial Statement Note 9.2)	32	31
Accountable Officer ^(a)	1	1
Less: Executive on leave without pay	0	-1
Less: Separations	-6	-7
Total executive numbers as at June 30	27	24

(a) Including the Auditor-General, VAGO's Accountable Officer.

Appendix D

Audit and risk management

Audit and Risk Committee Chair's report for the year ended 30 June 2018

The Audit and Risk Committee is appointed by the Auditor-General to provide independent advice to assist him in the discharge of his responsibilities for the management of VAGO's risk, control and compliance framework, and the external accountability responsibilities as prescribed in the *Financial Management Act 1994*, the *Audit Act 1994* and other relevant legislation and prescribed requirements.

All committee members are independent, non-executive members who are appointed by the Auditor-General for a term of three years and are eligible for reappointment subject to a formal review of the member's performance by the Auditor-General. The Audit and Risk Committee has appropriate financial and industry expertise. All members are financially literate and have an appropriate understanding of the operation of VAGO.

Sara Watts has been chair of the Audit and Risk Committee since 1 January 2014. The members of the Audit and Risk Committee for the year ended 30 June 2018, their qualifications and attendance at meetings, are set out below.

Committee member	Meetings attended	Meetings held
Sara Watts (Chair) BSc, MBA, FAICD, FCPA Non-executive director	4	4
Lyn Baker BA, MBA, GAICD Non-executive director and consultant	4	4
Joydeep Hor LLM, LLB(Hons), BA, FCIPD, FAHRI Managing Principal, People + Culture Strategies, Sydney	4	4

The responsibilities of the Audit and Risk Committee are defined in its charter which is approved by the Auditor-General.

The responsibilities of the committee include:

- to review the external auditors' proposed approach, conduct and the outcomes of the audit process
- to review, assess and recommend to the Auditor-General the adoption of the annual financial report
- to determine the scope of the internal audit function and review its effectiveness
- to review VAGO's approach to risk identification and management
- to consider VAGO's approach to compliance with relevant legislation, regulations and guidelines.

In fulfilling its responsibilities at each meeting, the Audit and Risk Committee has received operational management reports, risk management reports and briefings from the Auditor-General on his activities and issues affecting VAGO. During the course of the year, the Audit and Risk Committee has considered:

- the closing report from the external financial auditor for the year ended 30 June 2017, which identified no significant issues
- status updates and review reports from the internal auditor, which include management's response to matters raised by internal audit, together with subsequent follow up
- VAGO's risk management reports and risk registers
- systems of control for conflicts of interest and gifts, benefits and hospitality and the monitoring of those systems
- policies and procedures in place for the development of VAGO's annual plan and budget and resource planning
- whether VAGO has appropriate policies and practices in place to review and implement, where appropriate, recommendations from external reviews, including Parliamentary committee inquiries
- the effectiveness of the internal audit program.

At the time of signing this report, the annual financial report for the year ended 30 June 2018 had been considered and recommended for adoption by the Auditor-General.

The Audit and Risk Committee has met in camera with the external financial auditors, the Auditor-General and the internal auditor. The committee has also carried out a monitoring function during the period.

In closing, the committee wishes to acknowledge the significant and positive contribution made by Lyn Baker during her term on the committee.



Sara Watts (Chair)
9 August 2018

Risk management

We refreshed our strategic risk register in early 2017–18. We have 10 identified enterprise risks.

Risk	
1.	External events or changes undermine VAGO's role and powers in Victoria's integrity system and diminish our impact
2.	Failure of practice and project management delays or denies fulfilment of our strategic, annual and business plans, or leads to a serious breach of the <i>Audit Act 1994</i> , <i>Financial Management Act 1994</i> or <i>Public Administration Act 2004</i>
3.	Failure to capitalise on new technologies and efficiencies in work practices
4.	Failure to influence public service accountability and performance
5.	Unauthorised disclosure and/or breach of information security
6.	Final audit product is poor quality
7.	Failure to design processes that provide sufficient and appropriate assurance in financial and performance audit
8.	Control environment does not support the management of conflicts of interest, fraud and corruption, compliance and sound financials
9.	Misalignment of staff and leadership with VAGO values
10.	Ineffective sourcing and development of high-quality human capital—staff and contractors

We maintain effective risk governance that includes appropriate internal management structure and oversight arrangements. Each risk has been assigned to a member of our Strategic Management Group who monitor and, where appropriate, amend the register and the ratings in light of any external or internal changes to the organisation. The register is also considered by our Audit and Risk Committee at each of their meetings.

Attestation of compliance with Ministerial Standing Direction 5.1.4

I, Andrew Greaves, certify that the Victorian Auditor-General's Office has complied with the applicable Standing Directions of the Minister for Finance under the *Financial Management Act 1994* and Instructions.



Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
20 September 2018

Internal audit

PricewaterhouseCoopers was appointed as our internal auditor in July 2015. The internal auditor reports to our Audit and Risk Committee and the Auditor-General. The following reviews were carried out in 2017–18:

- penetration testing
- internal financial controls
- fraud and corruption controls.

The internal auditor also attended each meeting of our Audit and Risk Committee where reports were being considered, and provided a report on the status of the internal audit program, as required.

Appendix E

Environmental management

Figure E1
VAGO's environmental performance, 2016–17 and 2017–18

Indicator	2017–18	2016–17
Energy use		
Total energy usage segmented by primary source (MJ)	880 274	1 244 089
Electricity (MJ)—excluding Green Power ^(a)	634 234	232 148
Natural gas (MJ)	239 294	255 642
Green power (MJ) ^(a)	6 746	756 299
Total greenhouse gas emissions from energy consumption (tonnes CO₂e)^(a)	221	91
Electricity (tonnes CO ₂ e)—excluding Green Power ^(a)	208	77
Natural gas (tonnes CO ₂ e)	13	14
Percentage of electricity purchased as Green Power^(a)	2%	100%
Units of office energy used per FTE (MJ/FTE)	4 934	6 264
Units of office energy used per office area (MJ/m²)	339	443
Waste and recycling		
Total units of waste disposed of by destination (kg/yr)	6 163	5 717
Landfill (kg)	1 572	1 979
Comingled recycling (kg) ^(b)	3 497	1 760
Secure documents (kg)	502	1 214
Organics (kg)	592	764
Total units of waste disposed of per FTE by destination (kg/FTE)	35	29
Landfill (kg/FTE)	9	10
Comingled recycling (kg/FTE) ^(b)	20	9
Secure documents (kg/FTE)	3	6
Organics (kg/FTE)	3	4
Recycling rate (%)	66%	44%
Greenhouse gas emissions associated with waste (tonnes CO₂e)	2.2	2.8
Paper use		
Total units of A4 equivalent copy paper used (reams)	678	1 842
Units of A4 equivalent copy paper used per FTE (reams/FTE)	4	9
75–100% recycled content	89%	92%
0–49% recycled content	11%	8%

Figure E1

VAGO's environmental performance, 2016–17 and 2017–18—*continued*

Indicator	2017–18	2016–17
Water consumption		
Total water consumption (kilolitres) ^(c)	2 392	927
Units of office water used per FTE (kilolitres/FTE)	178	5
Units of office water used per office area (kilolitres/m ²)	1	0
Travel and transport		
Total energy consumption by vehicle fleet, all LPG (MJ)	971 058	690 547
Total distance travelled by fleet vehicles, all LPG (km)	250 655	210 698
Total greenhouse gas emissions from fleet vehicles, all LPG (tonnes CO ₂ e)	69	49
Greenhouse gas emissions from fleet vehicles per 1 000 km, all LPG (tonnes CO ₂ e)	0.6	0.5
Total distance travelled by air (km)	131 207	94 012
Greenhouse gas emissions		
Total greenhouse gas emissions associated with energy use (tonnes CO ₂ e) ^{(a)(d)}	221	91
Total greenhouse gas emissions associated with vehicle fleet (tonnes CO ₂ e) ^(e)	69	49
Total greenhouse gas emissions associated with air travel (tonnes CO ₂ e)	40	18
Total greenhouse gas emissions associated with waste disposal (tonnes CO ₂ e) ^(d)	2.2	2.8
Greenhouse gas emissions offsets purchased (tonnes CO ₂ e)	0	0

(a) Difference due to not using Green Power with new office contract.

(b) Increase due to the packaging from new IT equipment.

(c) This year's data is based on share of the whole building, rather than meter readings.

(d) This includes office-based data only.

(e) This does not include taxis which were previously captured in our transport reporting.

Note: This year's data does not include fridges which were previously included.

Appendix F

Policies and compliance

Building Act

VAGO does not own or control any government buildings and, therefore, has no responsibilities under the *Building Act 1993*.

DataVic Access Policy

In August 2012, the Victorian Government endorsed the DataVic Access Policy to enable public access to government data, and to improve how the public sector shares information. VAGO complies with this policy, and relevant data sets are available on our website.

Victorian Industry Participation Policy

During 2017–18, VAGO did not undertake any procurement activity that was subject to the Victorian Industry Participation Policy.

National Competition Policy

VAGO complies with the National Competition Policy, including complying with the requirements of the Department of Treasury and Finance's Competitive Neutrality Policy.

Oversight by the Victorian Inspectorate

In 2017–18, VAGO had nothing to report to the Victorian Inspectorate, and the Inspectorate did not review any of VAGO's activities. We did provide the Inspectorate with a range of documentation, including policies, procedures, and templates related to our coercive powers, to assist the Inspectorate to acquit its legislative responsibilities related to VAGO.

Work arrangements

VAGO offers flexible work arrangements for staff, in response to staff demand and legislative obligations for employers to provide flexible working conditions. We encourage our staff to take advantage of the arrangements available to them.

Merit and equity

VAGO has a range of policies that reflect our commitment to a workplace free from discrimination, harassment and bullying, and that support merit-based recruitment practices.

We also comply with the Victorian Charter of Human Rights and the Code of Conduct for Victorian Public Sector Employees of Special Bodies.

Our selection processes ensure that applicants are assessed and evaluated fairly and equitably on the basis of the key selection criteria and other accountabilities without discrimination. We also ensure that employees have been correctly classified in workforce data collections.

Protected disclosures

Under the *Protected Disclosure Act 2012*, VAGO cannot receive protected disclosures.

Disclosures about VAGO officers may be made to the Independent Broad-based Anti-corruption Commission or the Victorian Inspectorate.

Further information on VAGO's responsibilities is available at: www.audit.vic.gov.au/complaints-about-vago.

Freedom of information

Section 20A of the *Audit Act 1994* broadly precludes us from disclosing information we gather during an audit, other than reporting to Parliament. Section 20B of the *Audit Act 1994* also precludes third parties from accessing any audit-related information and documents we hold.

Our administrative processes come under the state's freedom of information legislation. For the 12 months ending 30 June 2018, we received four requests for information. Three of these were for audit evidence which we cannot provide, and one request was for information that was already publicly available on our website.

Further information on VAGO's obligations under the *Freedom of Information Act 1982* is available on our website.

Freedom of information requests

Requests for access to non-audit-related information and documents we hold can be made to the Freedom of Information Officer:

By email
enquiries@audit.vic.gov.au

By phone
03 8601 7000

In writing
Freedom of Information
Victorian Auditor-General's Office
Level 31, 35 Collins Street
Melbourne 3000

Appendix G

Additional information available on request

This report and our website publish all information required by the Directions of the Minister for Finance.

We can provide further details on the information items listed below if requested, subject to the freedom of information requirements, if applicable:

- a statement that declarations of pecuniary interests have been duly completed by all relevant staff of the office
- details of shares held by a senior officer as nominee or held beneficially in a statutory authority or subsidiary
- details of changes in prices, fees, charges, rates and levies charged by our office
- audit fees, which are revised every year
- details of overseas visits, including a summary of the objectives and outcomes of each visit
- details of assessments and measures to improve the occupational health and safety of staff
- a general statement on industrial relations in the office and details of time lost through industrial accidents and disputes
- a list of major committees we sponsor, the purposes of each, and the extent to which they have achieved their purposes
- further information on our environmental performance
- details of all consultants and contractors, including:
 - consultants and contractors engaged
 - services provided
 - spending committed to for each engagement.

This information can be requested from our Freedom of Information Officer, as listed in Appendix E.

The following information is available from our website:

- details of documents we published about our activities
- copies of all our reports since 1956.

Appendix H

Disclosure index

Our annual report is prepared in accordance with all relevant Victorian legislation and pronouncements. This index has been prepared to demonstrate our compliance with statutory disclosure requirements.

Legislation	Requirement	Page
Ministerial directions		
Report of operations— Financial reporting direction (FRD) guidance		
<i>Charter and purpose</i>		
FRD 22H	Manner of establishment and the relevant minister	9
FRD 22H	Purpose, functions, powers and duties	9
FRD 22H	Key initiatives and projects	31 and 42
FRD 22H	Nature and range of services provided	9
<i>Management and structure</i>		
FRD 22H	Organisational structure	36
<i>Financial and other information</i>		
FRD 8D	Performance against output performance measures	21
FRD 8D	Budget portfolio outcomes	53
FRD 10A	Disclosure index	113
FRD 15E	Executive officer disclosures	101
FRD 22H	Employment and conduct principles	109
FRD 22H	Occupational health and safety policy	99
FRD 22H	Summary of the financial results for the year	45
FRD 22H	Significant changes in financial position during the year	48
FRD 22H	Major changes or factors affecting performance	31 and 42
FRD 22H	Application and operation of <i>Freedom of Information Act 1982</i>	110
FRD 22H	Compliance with building and maintenance provisions of the <i>Building Act 1993</i>	109
FRD 22H	Statement on National Competition Policy	109
FRD 22H	Application and operation of the <i>Protected Disclosure Act 2012</i>	110
FRD 22H	Details of consultancies over \$10 000	49
FRD 22H	Details of consultancies under \$10 000	49
FRD 22H	Disclosure of ICT expenditure	52
FRD 22H	Statement of availability of other information	111
FRD 24D	Reporting of office-based environmental impacts	107
FRD 25C	Victorian Industry Participation Policy disclosures	109
FRD 29C	Workforce data disclosures	37 and 97
SD 5.2	Specific requirements under Standing Direction 5.2	1–43

Legislation	Requirement	Page
Compliance attestation and declaration		
SD 5.1.4	Attestation for compliance with Ministerial Standing Direction	105
SD 5.2.3	Declaration in report of operations	3
Financial report		
<i>Declaration</i>		
SD 5.2.2	Declaration in financial statements	55
<i>Other requirements under Standing Directions 5.2.2</i>		
SD 5.2.1(a)	Compliance with Australian Accounting Standards and other authoritative pronouncements	62
SD 5.2.1(a)	Compliance with Ministerial Directions	55
<i>Other disclosures as required by FRDs in notes to the financial statements</i>		
FRD 9B	Disclosure of administered assets and liabilities	70
FRD 13	Disclosure of Parliamentary appropriations	63
FRD 21C	Disclosures of responsible persons, executive officers and other personnel (contractors with significant management responsibilities) in the financial report	87
FRD 103G	Non-current physical assets	73
FRD 110A	Cash flow statements	60
FRD 112D	Defined benefit superannuation obligations	67
<i>FRDs applicable to VAGO with no disclosures to make in 2017–18</i>		
FRD 11A	Disclosure of ex gratia expenses	—
FRD 12B	Disclosure of major contracts	—
FRD 22H	Application and operation of the <i>Carers Recognition Act 2012</i>	—
FRD 22H	Subsequent events	—
SD 5.2.1(b)	Compliance with Model Expense Report	—
FRD 22H	Disclosure of government advertising expenditure	—

This report departs from the requirements of FRD 30D *Standard Requirements for the Publication of Annual Reports*, which calls for a minimal use of colour and photographs. Due to our use of complex charts and graphics we have used full colour in this publication, however we print only 25 copies of this report; it is primarily an online document.