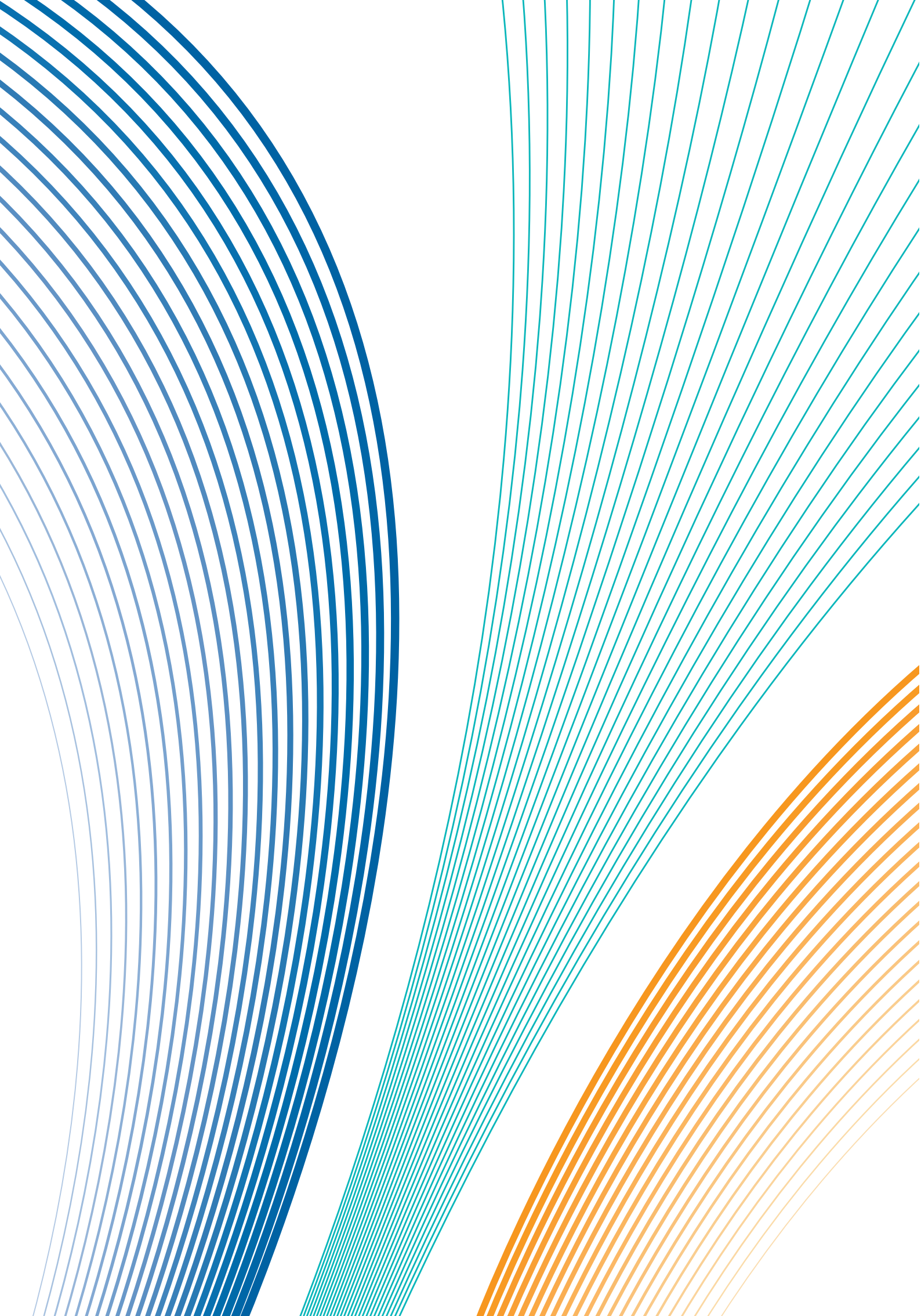

Annual Report 2018–19





Annual Report 2018–19



The Hon Shaun Leane 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 the *Audit Act 1994*, the annual report of the Victorian Auditor-General's Office for the year ended 30 June 2019 for presentation to parliament.

Yours faithfully

A handwritten signature in black ink, appearing to read "Andrew Greaves", is written over a light blue rectangular background.

Andrew Greaves
Auditor-General

29 August 2019

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 2019.

A handwritten signature in black ink, appearing to read "Andrew Greaves", is written over a light blue rectangular background.

Andrew Greaves
Auditor-General

29 August 2019

Foreword

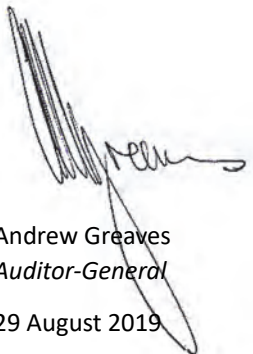
This year has seen a continuation of our change agenda to position ourselves for the future and make VAGO an exemplary and modern audit office. Since I started as Auditor-General in September 2016, the Victorian Auditor-General's Office has undergone significant internal transformation to our structures, senior personnel, systems and processes. While these changes may be less evident outside VAGO, we see their beneficial effects in the growth in our reputation and standing in the public sector, and in the quality and impact of our audits and reports. We are well on the way to making sure that what we deliver is relevant to the contemporary challenges facing the public sector, and to being a strong influencer for effecting change and improvement where needed.

Our increasing use of data analytics to underpin our audit evidence bases and drive our performance and financial audits provides new insights into many 'wicked' problems that traditional auditing methods could never deliver. This is perhaps best exemplified by the work we did this year in the health and human services sector. Our two reports into the mental health system involved analysis not previously undertaken of key datasets, which enabled us to highlight significant systemic shortcomings. These reports have also featured in the Royal Commission into Victoria's Mental Health System, which demonstrates that we are picking topics of the moment that matter to all Victorians.

Our technology updates have strengthened our data protection practices, which has enabled agencies to confidently share their data with us and enabled us to make the most of our data analytics capability. Our network improvements are also enabling staff to work remotely and to collaborate more easily. The changes we have made to our internal practices, particularly around making better use of our resources, have helped ensure that we are meeting the standards we expect of the agencies we audit.

One key focus has been the culture of our workplace. This year saw us introduce a *Culture Plan* and our first *Diversity and Inclusion Plan*. These help us continue to live up to the organisational values we chose last year. I am mindful, however, that the pace of change overlaid on what has always been a demanding workload for our staff can have negative consequences. We need to do better as an organisation to manage change and to manage workloads if we are to make sure that we bring our staff along with us on this journey. This will be a major focus for me and my executive team in the coming year.

I am also pleased that we will begin 2019–20 with an amended *Audit Act 1994*. Our updated legislation is another hallmark of the clear and practical modernisation of our operations. It allows us to be more relevant and responsive, which helps us to better serve Victorians.



Andrew Greaves
Auditor-General
29 August 2019

About this report

This report covers the activities of VAGO for the period 1 July 2018 to 30 June 2019. 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 report cost \$50 000 to produce.

Contents

1 About VAGO	9
1.1 Our operating model	10
1.2 Our values.....	11
1.3 Our new legislation.....	11
1.4 Our strategic plan	12
1.5 Our performance	14
2 Increasing our relevance	17
2.1 Acquitting our 2018–19 work program	17
2.2 Improving our performance and the benefits of our work	19
3 Growing our influence.....	23
3.1 Engaging with our stakeholders	24
3.2 Feedback from our stakeholders.....	25
3.3 Where our audit topics come from	26
3.4 Leveraging our access to data	27
3.5 Our impact in 2018–19	28
4 Investing in our people.....	33
4.1 Our staff.....	33
4.2 Human resources improvements	34
5 Leading by example.....	39
5.1 Technology updates	39
5.2 Data protection	40
5.3 Clear communication.....	41
5.4 Governance initiatives.....	42
5.5 Assuring our audit quality.....	43
6 Performance statement	47
7 Managing our finances.....	53
7.1 Current year financial review	53
7.2 Financial performance.....	54
7.3 Financial position.....	56
7.4 Cash flows.....	56
7.5 Other financial matters	57
7.6 Financial statements.....	62
Appendix A. Workforce profile	103
Appendix B. Workplace health and safety	105
Appendix C. General executive information	107
Appendix D. Audit and risk management	109
Appendix E. Environmental management	113

Appendix F. Policies and compliance	115
Appendix G. Additional information available on request	119
Appendix H. Disclosure index.....	121

1

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:

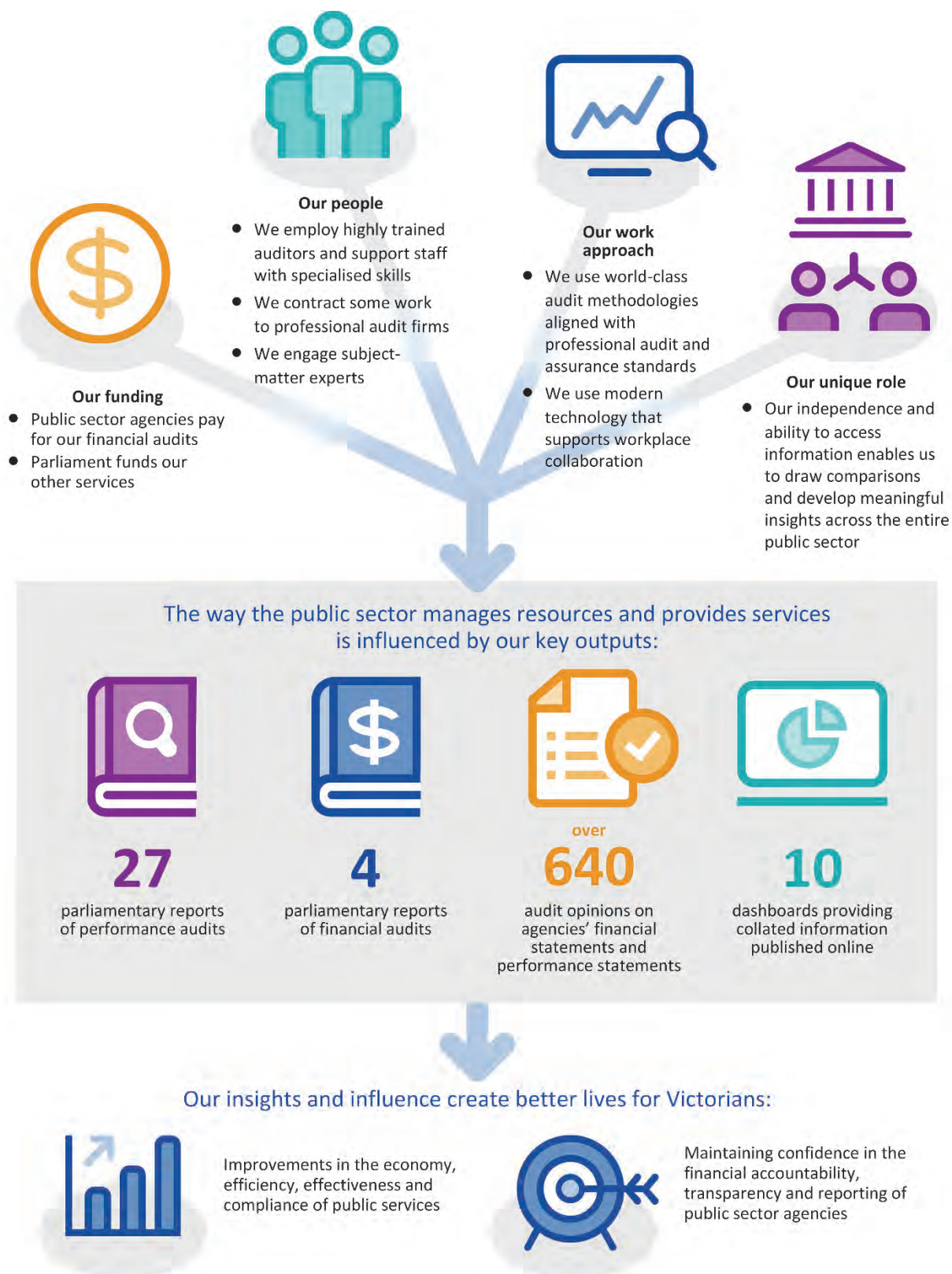
- The *Constitution Act 1975* establishes the role of the Auditor-General and gives the Auditor-General complete discretion in how the functions and powers of the role are performed and exercised.
- The *Audit Act 1994* establishes the Auditor-General's mandate and VAGO. It provides the legal basis for our powers and identifies the responsibilities of our role. In Section 1.3, we discuss the recent changes to this Act.

We audit the financial reports of over 500 agencies each year and provide opinions on 110 performance statements. The agencies we audit include 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 follow-the-dollar powers, we are able to audit non-government organisations that provide government services under contract.

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

1.1 Our operating model

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



1.2 Our values

In May 2018, VAGO introduced a new set of organisational values:

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 collaborate
- We are innovative
- We are accountable

Staff chose these values to shape our work and our culture. This year, we continued involving staff in embedding their chosen values in our day-to-day work. We held a series of events and activities, including volunteering opportunities at the Brotherhood of St Laurence and innovation workshops. We participated in Dialogue in the Dark tours and collected items to donate to Fitted for Work. We also introduced our first *Diversity and Inclusion Plan*, which reflects our values of innovation and respect. We discuss this plan in Section 4.2.

1.3 Our new legislation

Parliament passed the *Audit Amendment Act 2019* on 28 May 2019, and it commenced on 1 July 2019.

The Act restructures and modernises the *Audit Act 1994*, strengthening the Auditor-General's capacity to examine and report on the efficiency, effectiveness, and economy of the public sector.

The *Audit Act 1994* now includes modern information gathering powers, widens our ability to disclose relevant information to other bodies, and introduces a new function to conduct and report on assurance reviews to parliament.

VAGO's existing information gathering powers have been strengthened to include powers to enter and inspect premises. Intended as a last resort, these new powers have strict procedural fairness and mandatory reporting obligations. The changes also clarify that VAGO can disclose information to specific entities, such as a relevant public body or minister.

Assurance reviews are more targeted, time sensitive, smaller scale and cost-effective compared with financial or performance audits. They enable the Auditor-General to respond quickly and effectively to discrete issues brought to the Auditor-General's attention by other integrity offices, parliamentarians or the community. We will use this new function first to report annually on agencies' progress in acquitting past audit recommendations that they agreed to implement.

1.4 Our strategic plan

In 2017, we launched our *Strategic Plan 2017–2021*, which sets out our objectives, our directions to achieve these objectives, and measures of what success looks like. This is our first full year of operating with the plan. In this report we detail our progress against the plan.



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

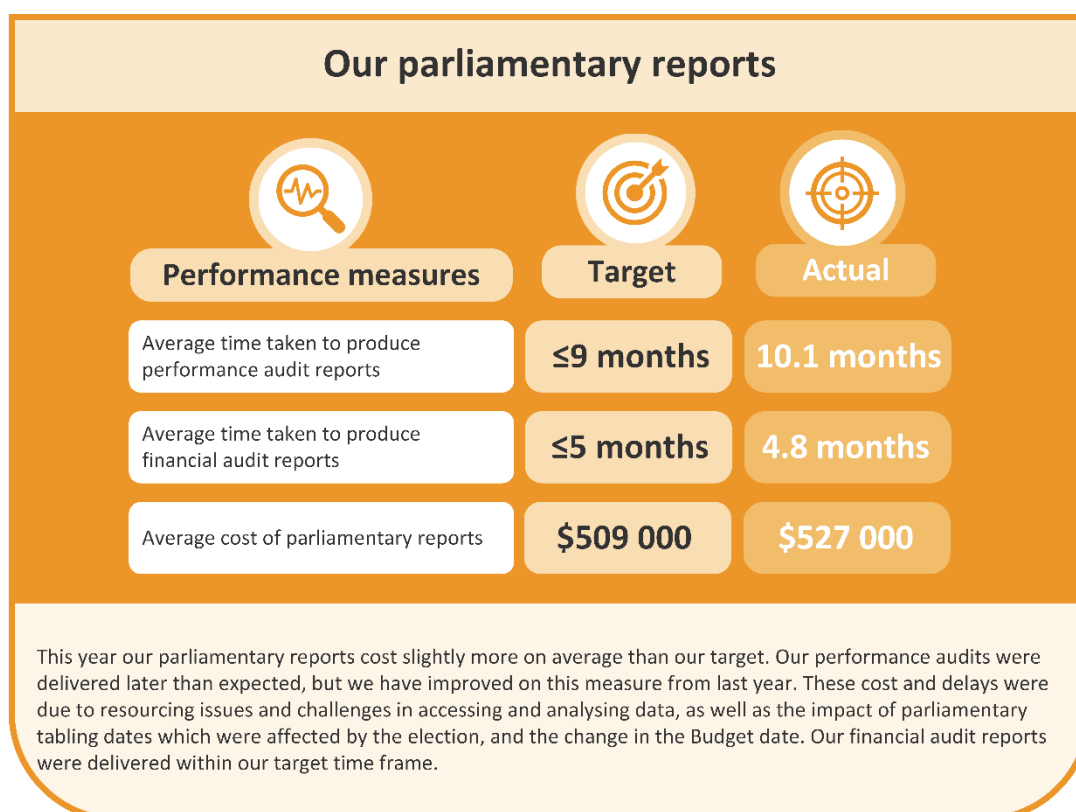
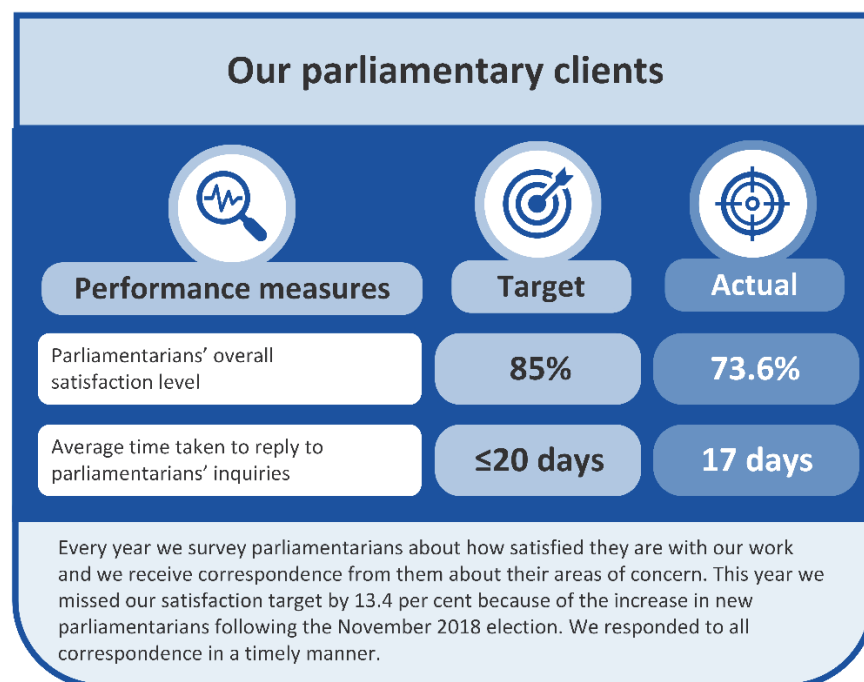
Develop a comprehensive portfolio of service, product and project performance measures

What success looks like	Our progress and highlights
<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>In 2018–19, we delivered an audit program balanced across efficiency, effectiveness, economy and compliance.</p> <p>We used data analytic dashboards in our annual planning for the first time.</p> <p>We reviewed and modernised our financial audit methodology.</p> <p>We created financial audit dashboards that allow us to quickly process and analyse 100 per cent of our clients' financial records.</p> <p>We focused on having a longer-term perspective by tabling the first of our longitudinal performance audits on the Melbourne Metro Tunnel Project.</p> <p>We continue to follow up with agencies post-audit to help us understand the benefits audited agencies are realising through our audit work.</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>This year we have worked on strengthening our relationships with parliamentarians and audit committee chairs.</p> <p>We continued reviewing suggestions from parliamentarians and the public as part of our annual planning process.</p> <p>We have continued our focus on data sharing and have created two dashboards for agencies to use to improve the way they deliver services.</p> <p>We created 10 data dashboards for the public to access and use.</p> <p>Our audits have made a significant impact this year, helping to shape funding decisions and new initiatives.</p>
<p>Employee engagement has increased</p> <p>We develop, attract, and retain the talent we need</p>	<p>Our employee engagement score this year was 66, the same as in 2018.</p> <p>This year, we launched a <i>Culture Plan</i> to help us live up to our organisational values and to keep our staff engaged.</p> <p>We also created our first ever <i>Diversity and Inclusion Plan</i>, which will help shape VAGO into a fairer and more welcoming workplace.</p> <p>We have run major training initiatives on appropriate behaviour and plain English.</p>
<p>Workforce productivity has increased</p> <p>Our internal practices set the benchmark for public sector entities and other audit offices</p>	<p>Our productivity was 60 per cent (55 per cent in 2016–17 and 60 per cent in 2017–18).</p> <p>In 2018–19, we improved our internal processes by making significant technology updates and focusing on data protection.</p> <p>We continued to build our business intelligence systems that will give us simple and timely access to performance information.</p> <p>We implemented a new human resources system with a modern interface that has simplified tasks and reduced the duplication of effort.</p> <p>We reviewed our fraud and corruption controls.</p> <p>We have improved our reports by using infographics to highlight key messages.</p>

1.5 Our performance

Every year VAGO reports against the performance measures and targets set out in *Budget Paper No. 3*. This year, for the first time, this report includes an independently audited Performance Statement with this information, in Part 6. While not required, this approach assures readers that our non-financial performance information is reliable, in the same way that assurance is provided by the audit opinion on our financial statements.

A summary of our results is provided below.



Our performance audit recommendations



Performance measures

Percentage of accepted performance audit recommendations that have been implemented



Target

80%



Actual

78.4%

We track whether agencies are implementing the recommendations that we made and they accepted. This year our results were within tolerance.

Our financial audits



Performance measures

Audit opinions issued within deadlines



Target

98%



Actual

98.3%

Management letters issued within deadlines

90%

93.7%

Average cost of audit opinions on performance statements

\$5 100

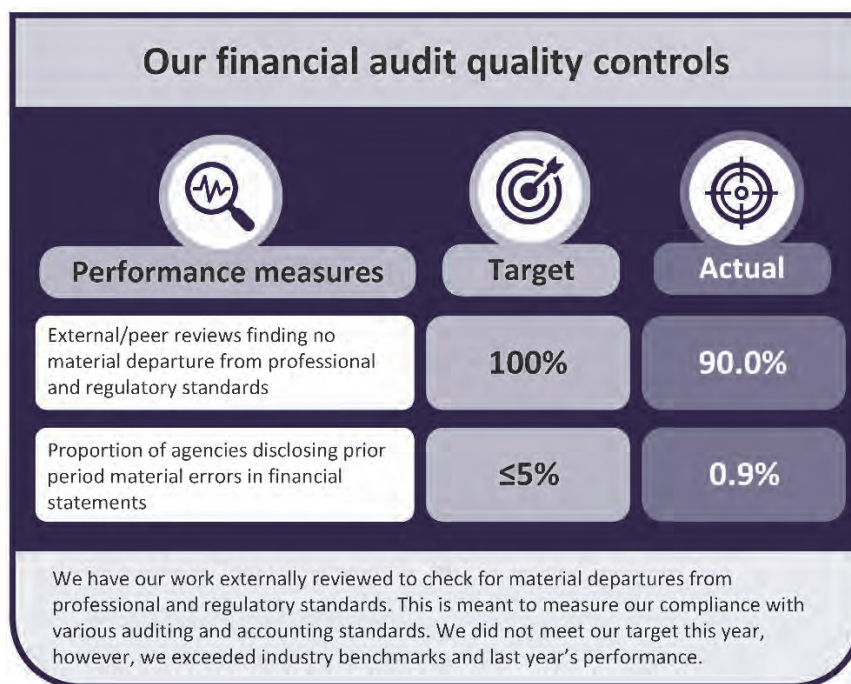
\$5 200

Average cost of audit opinions on financial statements

\$51 000

\$48 400

This year we met our time targets for issuing audit opinions and management letters. We slightly exceeded our cost target for audit opinions issued on performance statements, but the result is in line with last year. We met our cost target for audit opinions on financial statements.



As well as measuring performance through our *Budget Paper No. 3* measures, we also participate in a benchmarking exercise run by the Australasian Council of Auditors-General (ACAG) every year.

This year 46 per cent of all paid hours worked by all VAGO staff were charged to audit work. This is slightly lower than the average result for all states and territories of 48 per cent, but is better than our 2017–18 result of 44 per cent.

This year our audits cost 25 cents for every \$1 000 in public sector transactions. This continues our downward trend from 30 cents in 2016–17, and 27 cents in 2017–18. The average cost for all states and territories was 35 cents.

This year our financial audit staff spent 67 per cent of their available time directly on financial audits and our performance audit staff spent 70 per cent of their available time directly on performance audits. These results are the same as in 2017–18.

2

Increasing our relevance



Our objectives	Our directions	What success looks like
Be more relevant by delivering credible and authoritative reports and advice about things that matter and will make a difference	Modernise our auditing methods Explore our full mandate Take a longer-term perspective	Our audit program effort is targeted across efficiency, effectiveness, economy and compliance The benefits realised by the public sector show an increased return on investment from our audit work

To strengthen accountability, transparency and integrity in the public sector we have to ensure that our reports and advice are relevant and timely. We are ensuring our audit program covers our full mandate and balances efficiency, effectiveness, economy and compliance.

A better coordinated mix of audit topics allows us to take a longer view of complex problems and makes our work more valuable. It is also important that we keep our practices up to date. This year we invested in updating our financial audit methodology to reflect the most recent changes to standards and the emergence of data-driven audit approaches.

2.1 Acquitting our 2018–19 work program

Performance audit

This year we tabled 27 performance audit reports in parliament. Eighteen of these were listed in our *Annual Plan 2018–19*, including one follow-up audit, and nine were from our *Annual Plan 2017–18*.

Four audits were not tabled during the year as planned. Two audits were delayed due to resourcing issues and/or challenges in accessing and analysing data (Cenitex: Meeting Customer Needs for ICT Shared Services and Enrolment Processes at Technical and Further Education Institutes). One audit, Managing Registered Sex Offenders, has run late and the remaining audit, Market-led Proposals, was intentionally extended. Once we began analysing the relevant data it became clear that more time was needed to complete a meaningful audit. All four of these audits are scheduled to table in the first half of 2019–20.

2018–19 performance audit reports tabled: by sector

	Central Agencies and Whole of Government	
	<i>Contract Management Capability in DHHS: Service Agreements*</i>	(report 11, September 2018)
	<i>Security of Government Buildings</i>	(report 21, May 2019)
	<i>State Purchase Contracts*</i>	(report 12, September 2018)
	Education	
	<i>Professional Learning for School Teachers*</i>	(report 15, February 2019)
	<i>School Compliance with Victoria's Child Safe Standards</i>	(report 31, June 2019)
	<i>School Councils in Government Schools*</i>	(report 3, July 2018)
	Environment and Planning	
	<i>Follow Up of Oversight and Accountability of Committees of Management</i>	(report 7, September 2018)
	<i>Managing the Environmental Impacts of Domestic Wastewater</i>	(report 10, September 2019)
	<i>Managing the Municipal and Industrial Landfill Levy*</i>	(report 2, July 2018)
	<i>Recovering and Reprocessing Resources from Waste</i>	(report 27, June 2019)
	<i>Security of Water Infrastructure Control Systems (\$)</i>	(report 22, May 2019)
	Health and Human Services	
	<i>Access to Mental Health Services*</i>	(report 16, March 2019)
	<i>Child and Youth Mental Health</i>	(report 26, June 2019)
	<i>Managing Private Medical Practice in Public Hospitals</i>	(report 30, June 2019)
	<i>Managing Rehabilitation Services in Youth Detention*</i>	(report 4, August 2019)
	<i>Security of Patients' Hospital Data</i>	(report 23, May 2019)
	Infrastructure and Transport	
	<i>Compliance with the Asset Management Accountability Framework</i>	(report 20, May 2019)
	<i>Melbourne Metro Tunnel Project—Phase 1: Early Works (\$)</i>	(report 28, June 2019)
	Justice and Community Safety	
	<i>Crime Data*</i>	(report 6, September 2018)
	<i>Police Management of Property and Exhibits</i>	(report 5, September 2018)
	Local Government and Economic Development	
	<i>Delivering Local Government Services</i>	(report 8, September 2018)
	<i>Fraud and Corruption Control—Local Government</i>	(report 29, June 2019)
	<i>Local Government Assets: Asset Management and Compliance</i>	(report 19, May 2019)
	<i>Local Government Insurance Risks*</i>	(report 1, July 2018)
	<i>Outcomes of Investing in Regional Victoria</i>	(report 17, May 2019)
	<i>Reporting on Local Government Performance</i>	(report 18, May 2019)
	<i>Security and Privacy of Surveillance Technologies in Public Places</i>	(report 9, September 2018)

Key: * indicates audits from our *Annual Plan 2017–18*. (\$) indicates follow-the-dollar audits.

We cancelled one audit from our *2018–19 Annual Plan*, on sharing information to address family violence. We will continue to monitor risk in relation to the family violence information sharing scheme through our planned 2019–20 audit Managing Support and Safety Hubs and the legislated independent review of the Family Violence Information Sharing Scheme by Monash University. The terms of reference for this review mirrored our planned audit and we judged that it would not be the best use of resources to duplicate the work.

Financial audit

In 2018–19, we issued 532 audit opinions on the financial statements of public sector agencies. We also issued 110 audit opinions on the performance statements of local councils, water agencies and technical and further education institutes.

We tabled four parliamentary reports on the results of our financial audits. In previous years we have produced six reports, but due to the 2018 state election and early closure of parliament, we included a summary of our results for the water and public hospital sectors in our *Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2017–18*.

2018–19 reports tabled on the results of financial audits

<i>Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2017–18</i>	(report 13, October 2018)
<i>Results of 2017–18 Audits: Local Government</i>	(report 14, December 2018)
<i>Results of 2018 Audits: Technical and Further Education Institutes</i>	(report 25, May 2019)
<i>Results of 2018 Audits: Universities</i>	(report 24, May 2019)

2.2 Improving our performance and the benefits of our work

Balancing our performance audit program

To maximise the value we provide to parliament, the public sector, and the community, we focus our resources on the areas where we can have most impact. It is important that we explore our full mandate of economy, efficiency, effectiveness and compliance audits.

Our *Annual Plan 2019–20* is our third annual plan that sets out three years of planned audits, a well-received approach. It makes our short and medium-term goals and priorities clear to our stakeholders. We dedicated more time and resources to understanding the environmental context at the start of the annual planning process, which has improved the scope and selection of our audit topics. We increased engagement across the year with our stakeholders at an informal level, which has meant we have needed fewer formal consultations.

We use a rigorous assessment process to choose our topics and aim to balance predictability and responsiveness. Recently, we sought to rebalance our performance audit program with more targeted reviews focusing on efficiency, such as *Delivering Local Government Services* and *Enrolment Processes at Technical and Further Education Institutes*. We have also focused on issues of current public concern, such as fraud and corruption, cybersecurity and sexual harassment.

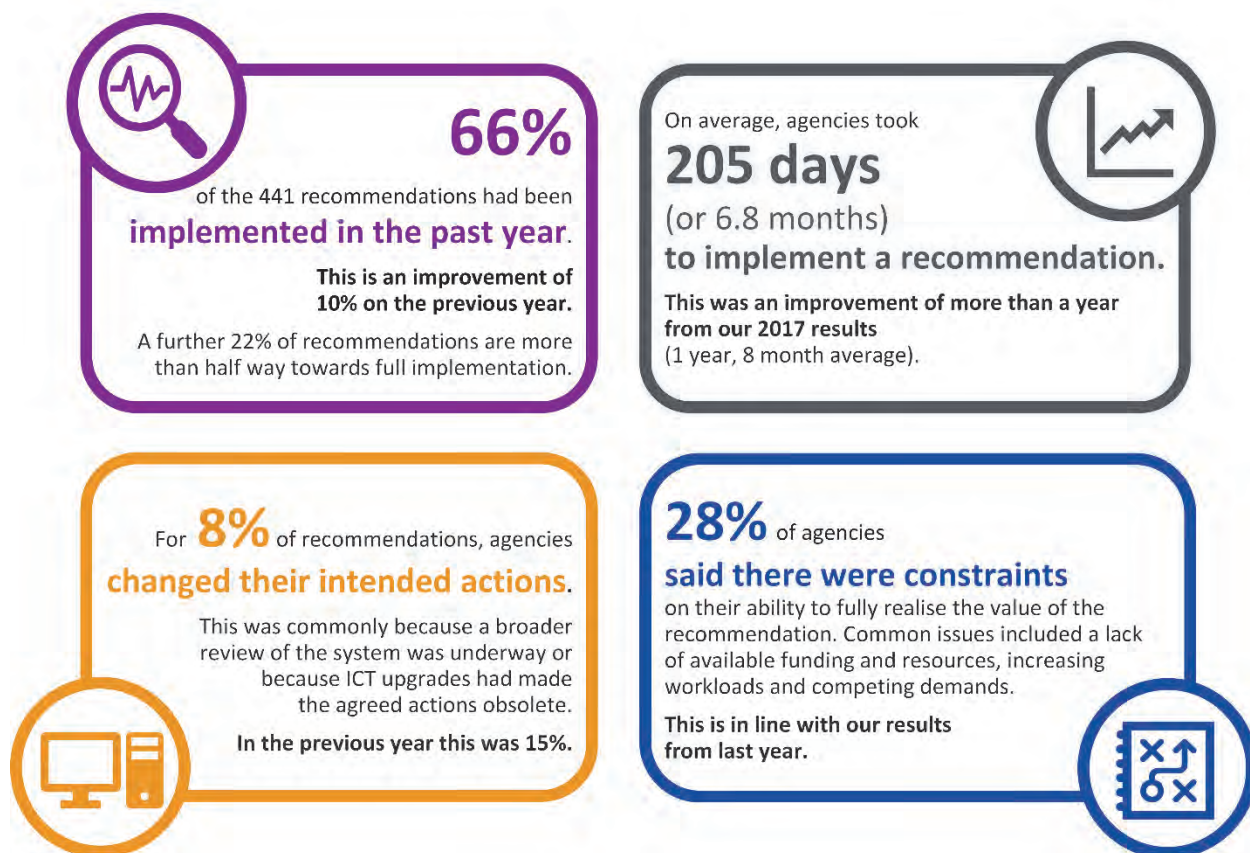
Our data analytics team developed new annual planning dashboards, shown below, which aided our planning process this year. These visual dashboards helped us better align our work program with our planning objectives by linking publicly available datasets from different sources and integrating variables such as risk and materiality, resource requirements, audit agencies and audit types. This provides us with better information to drive our decision-making for a more relevant work program.



Tracking our performance audit recommendations

Every year we do a follow-up survey to determine if agencies are acting on our audit recommendations. We issued the 2018 survey to 74 agencies, seeking feedback on 53 audits with 503 recommendations, from 2014–15 through to 2016–17. We received completed surveys from 58 agencies (78 per cent), addressing 441 recommendations (88 per cent of all recommendations), none of which had been rejected by agencies.





Modernising our financial audit methodology

One of our major projects this year was to review and update our financial auditing methodology. It had become outdated and needed refreshing.

Some of the auditing standards used as a basis for our previous methodology were not created with the public sector in mind. This resulted in some unnecessary procedures and effort.

Our updated methodology addresses these issues. It is more streamlined, allowing our auditors to be more effective and efficient. It is better focused on key risks and uses decision aids to help auditors best target their audit program. We also integrated data analytics into the planning procedures.

The new process has four stages: engage, plan, implement and conclude (EPIC). Staff were trained in November 2018 and May 2019. The new methodology is already being piloted in selected audits. Early feedback suggests that auditors find it more efficient.

Our next step is finding the best audit software to complement the new methodology. We are currently evaluating options. In the coming year, we will select and begin to implement new, modern audit software to support our new audit approach.

Developing our financial audit dashboards

This year we developed the first version of our financial audit dashboard. Dashboards are valuable audit tools. As well as freeing staff up from manual data collection and analysis, it can help them pinpoint areas of concern and focus on the right things.

This innovative and ambitious approach, often known as audit data analytics, allows us to automate the collection and analysis of massive amounts of data for auditors. When complete, it will streamline a range of manual audit tasks.

This year we began systemically collecting financial data from 35 of our larger audit clients for the dashboard. Contributing agencies can provide data in almost any format, through a secure IT portal. We then transform their data into a common format for analysis and check it for completeness

This approach allows us to be more thorough. Traditional auditing methods rely on transaction sampling for analysis. With our new approach, we can quickly process and analyse 100 per cent of our clients' financial records. Another benefit of this innovative approach is that it allows us to run many tests against the data for signs of potential fraud or errors. These can yield insights into unusual patterns of financial transaction activity to bring to management's attention for follow-up.

A data analytics capability needs a large amount of computer processing power and storage. Recent improvements in our IT approach will enable a secure and scalable data analytics environment. This includes strengthening our data security and protecting access to our dashboards.



3

Growing our influence



Our objectives	Our directions	What success looks like
Be valued for our independence and more influential because of the unique perspectives we provide	Strengthen our engagement Better leverage our access Increase accessibility to our work	More of our performance audits originate from requests from parliament, the public sector and the public Use of our reports and associated datasets in government service delivery and for parliamentary purposes has increased

To increase our influence, and ultimately the impact of our work, we rely on our relationships and our products.

To strengthen our relationships and provide credible advice, we need to have a good understanding of developments in the public sector and a meaningful dialogue with our stakeholders. We are constantly engaging with public sector agencies through our audit work, and we also foster strong cooperative relationships at the senior management level. This year we have worked on strengthening our relationships with parliamentarians and audit committee chairs. We have also spent more time with peak bodies and chief financial officers across all sectors.

VAGO has access to all administrative and financial datasets across all state and local government entities. This unique and privileged position creates a significant obligation for us to maximise the value we can create from this access. This year we have continued our focus on data sharing and have created several valuable dashboards for agencies and the public.

We are also continually trying to improve our reports and other products, and accessibility to them, so that the unique perspectives we provide can be turned into meaningful action. Several of our audits have made a significant impact this year.

3.1 Engaging with our stakeholders

Our primary stakeholders are the Victorian parliament and the public sector agencies we audit. This year, in time with the formation of the 59th parliament, we turned our attention to strengthening our engagement with parliamentarians. We created a webpage for new parliamentarians to inform them about our role, our processes and our services. We also sent information to all new and returning parliamentarians about the role of the Auditor-General, any upcoming audits that would be of interest, and how they could engage with VAGO. parliamentarians have been taking the opportunity to meet with the Auditor-General to discuss audit and accountability issues and make suggestions for audit topics.

We also focused on our relationships with audit committee chairs this year and hosted a forum in early June. We invited the audit committee chairs of all Victorian public sector agencies and organisations and 125 attended. The aim of the day was to share insights and advice on how agencies can improve their own internal audit practices and ensure good governance and accountability in their organisations.

The Auditor-General and senior VAGO executives presented on the strategic risks and challenges we have observed, our coverage of these through our audit program, and how digital disruption and data analytics will affect the way public sector agencies operate in the future.

Feedback from the forum made it clear that audit committee chairs across the state value the opportunity to network with their peers about common challenges in overseeing governance and auditing functions in their organisations. They found the insights provided by the Auditor-General and VAGO staff valuable.

One key benefit of having strong relationships with the agencies we audit is that we can use these relationships to extend the influence and impact of our reports. Throughout the year, VAGO staff present on our audit findings directly to those who can affect the most change, as the following examples demonstrate.

Our audit into the *Security and Privacy of Surveillance Technologies in Public Places* tabled in September. In November we presented about this audit to the Victorian Privacy Network. The forum was attended by about 200 privacy practitioners across the public and private sectors and the presentation was streamed live on the web.

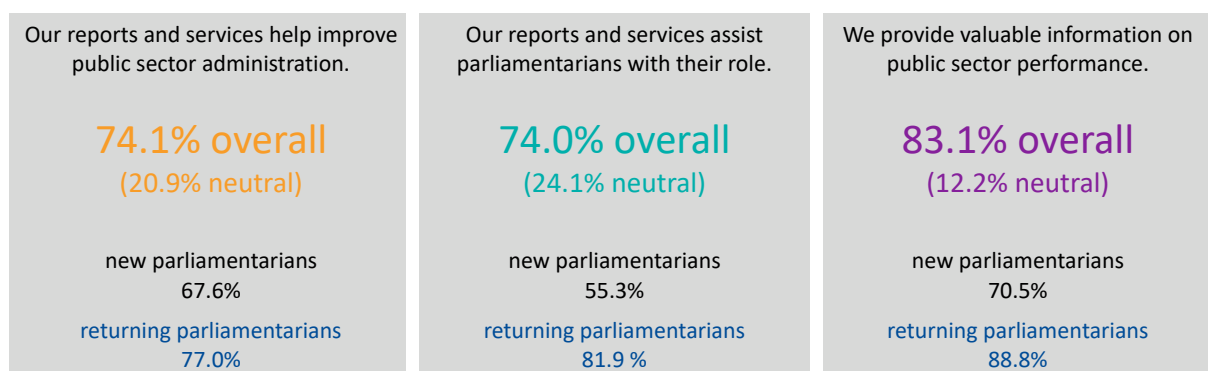
In August we tabled our report on *Managing Rehabilitation Services in Youth Detention*. VAGO staff presented on this audit at the Prisons 2019 conference held in Brisbane in July 2019.

We also engage with public sector agencies on *broader integrity issues*. In May, we presented at a regional integrity event in Horsham, organised by the Independent Broad-based Anti-corruption Commission.

3.2 Feedback from our stakeholders

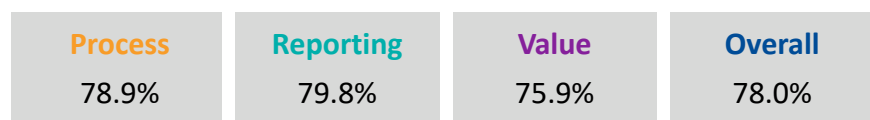
We survey parliamentarians every year to understand how well we are serving them. The survey told us that parliamentarians appreciate our independent position but would like our products to be more accessible and have a more digestible format. In response we are exploring new ways of presenting our audit findings while maintaining the evidentiary standards of our reporting.

Our overall satisfaction rating dropped, which we anticipated as the same thing happened after the previous election. A third of our survey respondents this year were new parliamentarians who are still learning about our work and how they can make use of our reports. We know this because we received a high number of neutral responses for many of our questions.



The difference between new and returning parliamentarians' perceptions of our value varies greatly, up to 26.6 percentage points. We expect our survey results will improve again over time as new parliamentarians come to use and understand our products more. We will also continue focusing on our products and communication channels with them to try and make our services more relevant, accessible and useful.

We also survey the agencies involved in our performance audits about our process, reporting and value. We aim for our average score across the year to be at least 75 per cent on each of these measures. These are our interim 2018–19 results, as surveys for the audits that tabled between March and June have yet to be completed. Each area has improved since 2017–18, with the average overall score increasing from 74.9 per cent to 78.0 per cent.



Our financial audit survey this year showed some very positive results. As with our performance audits surveys, we ask chief financial officers about our process, reporting and value. Here are some highlights of our interim 2018–19 results.

Process	Reporting	Value
96% believed our auditors conducted themselves professionally during the audit	100% believed that our management letters were issued in a timely manner, an improvement of 13% on 2017–18	93% believed that our recommendations improve the financial management and internal controls of their organisation
93% believed our auditors had the right professional skills and knowledge	96% believed audit opinions were issued in a timely manner, an improvement of 10% on 2017–18	89% valued the assurance obtained from our audit
89% believed that our auditors were responsive to their needs and communicated with them effectively	96% believed our management letters communicated the audit findings and issues clearly	
	92% believed our management letters were balanced and fair	

3.3 Where our audit topics come from

As discussed in Section 2.2, we consult the agencies we audit to develop our annual plan of audit topics, and this year we have used our new annual planning dashboards to gather information and choose the most worthwhile topics. However, we also want to ensure that we are reflecting issues of concern to parliamentarians and the public, so we aim to increase the number of our audits that originate from these sources.

Work is being undertaken this year to establish a baseline of how many of our audit topics come from parliamentarians, the public sector and the public. Our annual planning process now gathers information on where topics have come from.

In 2018–19 we received 141 requests and comments from the public and elected officials:

- 131 from members of the public
- four from state parliamentarians
- six from local councillors.

Some of the reports we tabled this year cover topics raised in these requests, including *Fraud and Corruption Control—Local Government* and *Outcomes of Investing in Regional Victoria*.

Some of our planned audits are related to issues that have been raised by parliamentarians:

- Freight outcomes from regional rail upgrades
- Reducing the harm caused by alcohol and drugs on Victorian roads
- Safety on Victoria’s roads—regional road barriers.

Some of our planned audits are also related to topics raised with us by the public since 2017:

- Conserving threatened species
- Council waste management services
- Managing and enforcing infringements
- Planning and management of metropolitan bus services
- Reducing bushfire risks
- Rolling stock fleet sustainability
- Safety on Victoria's roads—regional road barriers
- Use of contractors and consultants in the Victorian public sector.

3.4 Leveraging our access to data

Another way we are increasing our influence is through our datasets and interactive dashboards. We are making the most of our access to data by providing the agencies we audit with valuable datasets. For two of our performance audits this year, *Contract Management Capability in DHHS: Service Agreements* and *State Purchase Contracts*, we provided our datasets to the audited agencies, enabling them to use our analysis to improve their delivery of government services.

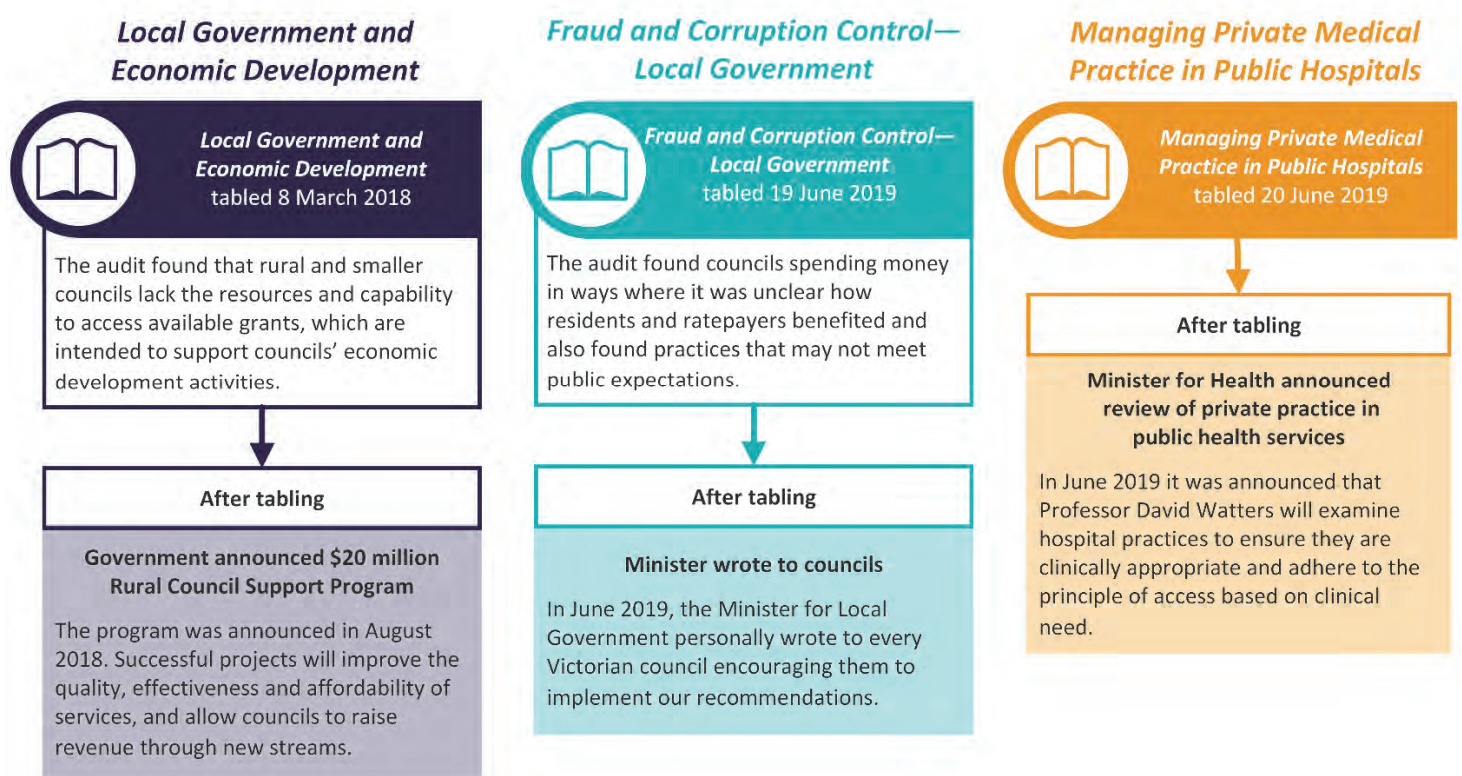
We also publish dashboards on our website that everyone can access. This is a key way to increase the accessibility of our work because these datasets allow people to use the information in a way that is valuable to them. While we have included similar information in our reports in the past, the dashboards allow people to manipulate and filter the data, which makes this information much more useful to individuals.

This year we published two dashboards on our website related to performance audits and eight related to financial audits. Our five most used dashboards are listed below.

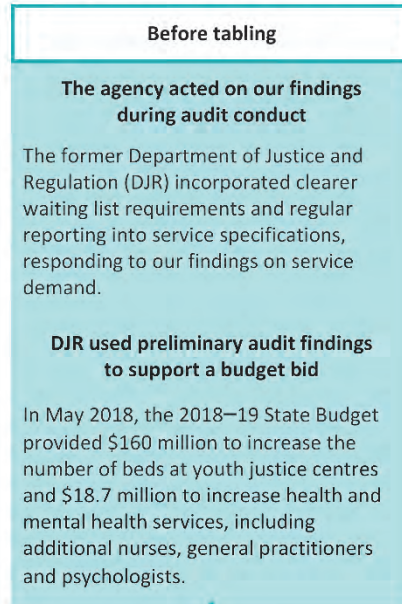
1	Our dashboard for Reporting on Local Government Performance enables councils and the public to compare the performance of all 79 Victorian councils across the nine service areas reported in the Local Government Performance Reporting Framework.
2	Our dashboard for Outcomes of Investing in Regional Victoria provides information about the distribution of Regional Development Victoria's grants to each regional local government area. It also provides a snapshot of economic and social indicators for those areas.
3	Our metropolitan hospitals dashboard was published as part of the Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2017–18 . We are refining our dashboard content each year, and adding to the existing data, making it possible to track and compare financial performance over time.
4	Our regional hospitals dashboard, published with the Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2017–18 , was also popular.
5	We published our data on the performance of local councils this year for the first time with our financial audit Results of 2017–18 Audits: Local Government .

3.5 Our impact in 2018–19

Our performance audits continued to make an impact this year. Some of these audits are recent and others are continuing to be relevant and useful years after their publication.



Managing Rehabilitation Services in Youth Detention



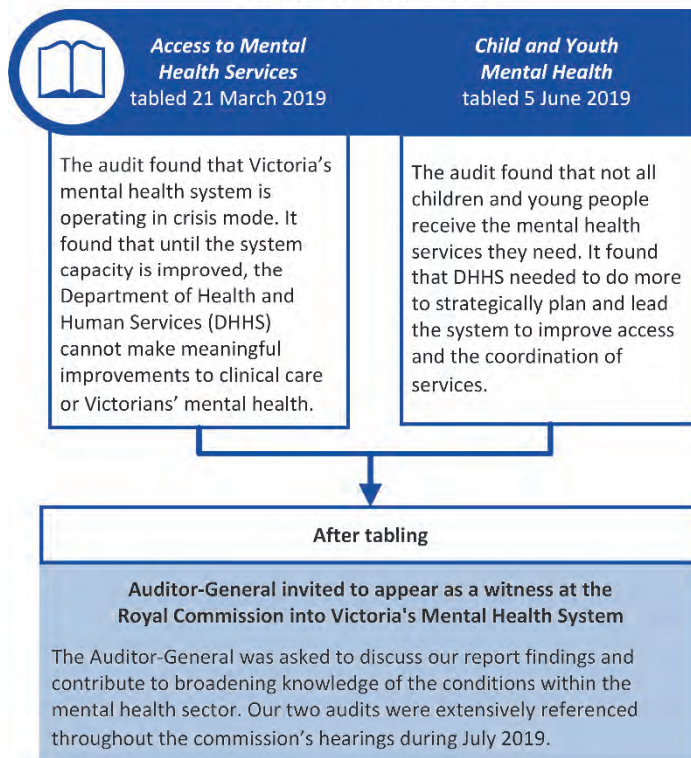
Managing Rehabilitation Services in Youth Detention
tabled 8 August 2018

Recovering and Reprocessing Resources from Waste

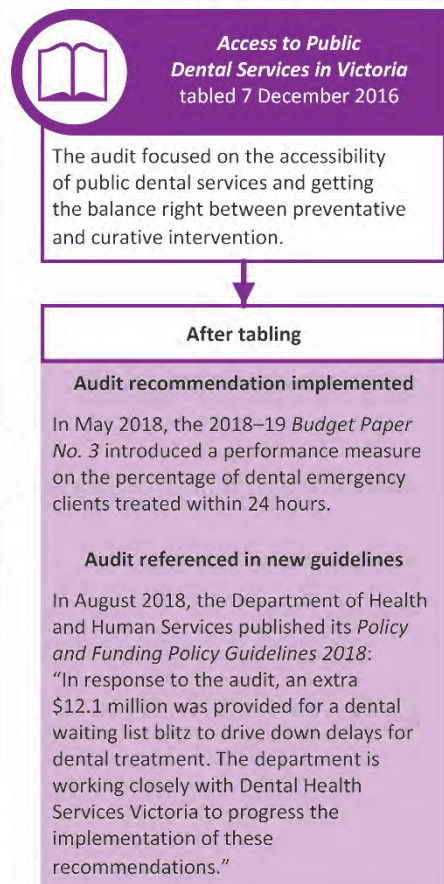


Recovering and Reprocessing Resources from Waste
tabled 6 June 2019

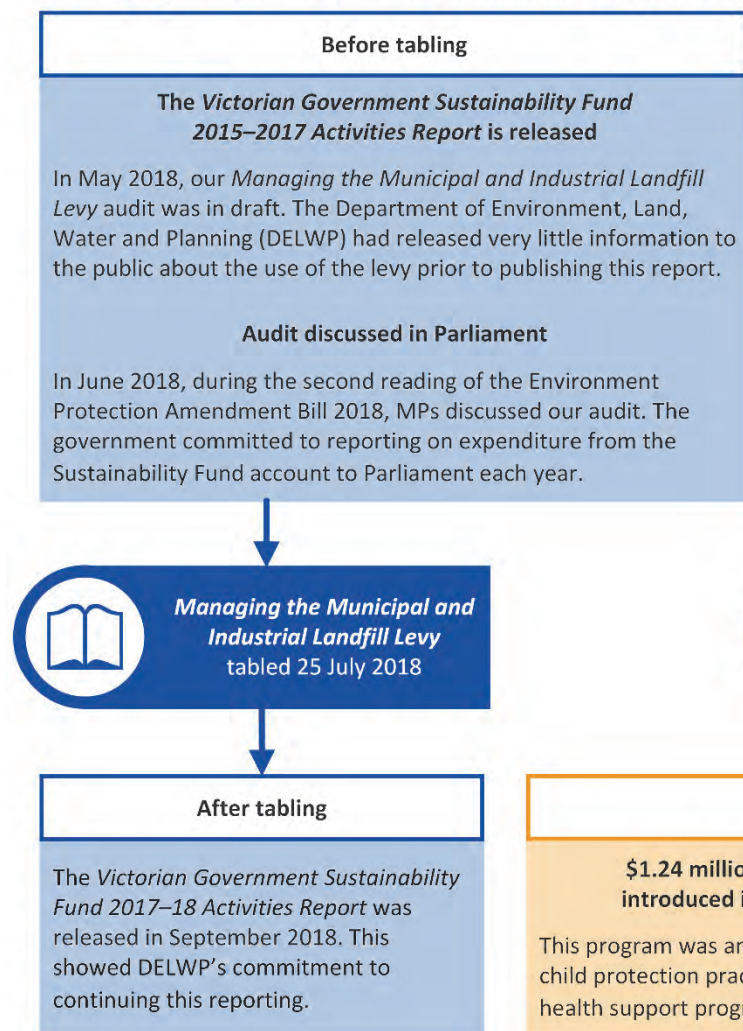
Mental health audits



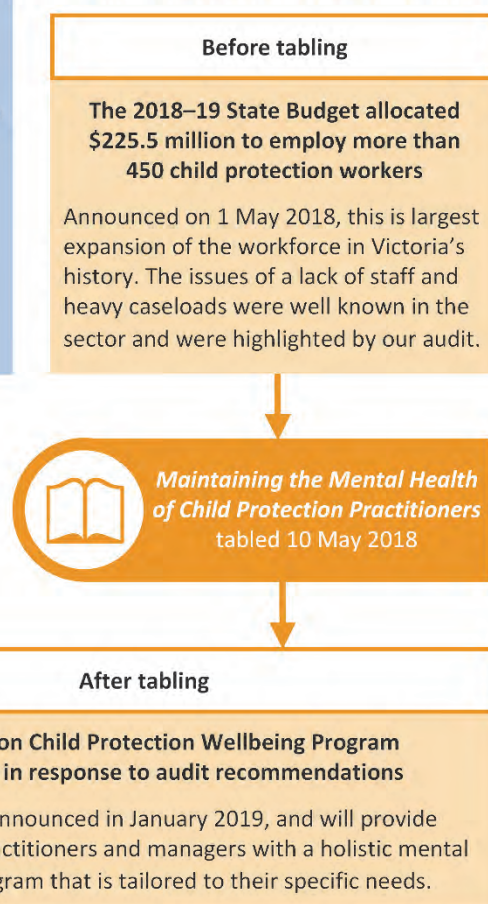
Access to Public Dental Services in Victoria



Managing the Municipal and Industrial Landfill Levy



Maintaining the Mental Health of Child Protection Practitioners



Another way our audits make an impact is their use by parliamentary committees. Several committees referred to our reports this year.

The Public Accounts and Estimates Committee's (PAEC) *Report on the 2018–19 Budget Estimates* made a recommendation that the Department of Treasury and Finance introduce new measures in the budget papers that increase the transparency of the performance of private prisons, and measure the impact of initiatives to reduce unmet demand for child protection services. This is directly in line with recommendations from our reports *Safety and Cost Effectiveness of Private Prisons* and *Maintaining the Mental Health of Child Protection Practitioners*.

PAEC recommended that the former Department of Economic Development, Jobs, Transport and Resources include additional performance measures in the budget papers to assist parliament to scrutinise Public Transport Victoria's related performance with myki, as identified in our report *Follow Up of Selected 2014–15 Performance Audits*.

PAEC also referred to findings and recommendations from other audits including *The Victorian Government ICT Dashboard*, *Financial Systems Controls Report: 2015–16*, *Digital Dashboard: Status Review of ICT Projects and Initiatives*, *Regulating Gambling and Liquor* and *Managing School Infrastructure*.

The Electoral Matters Committee made 36 recommendations for improving civics and electoral participation in Victoria in its *Inquiry into civics and electoral participation in Victorian state parliamentary elections*. It refers to our 2016 audit *Victorian Electoral Commission* and echoes our recommendation about the need to evaluate, measure and improve the Democracy Ambassador program.

The Law Reform, Road and Community Safety Committee released an interim report for the *Inquiry into VicRoads' management of country roads*. It heavily references our 2017 report *Maintaining State-Controlled Roadways* and notes 'the need for recommendations made by VAGO in its road network reports to be implemented' and the importance of monitoring and publicly reporting on VicRoads' commitments in these areas. It also references our 2008 report *Maintaining the State's Regional Arterial Road Network*.

The Family and Community Development Committee's *Inquiry into Perinatal Services* drew on our 2017 report *Effectively Planning for Population Growth*. They summarised findings and recommendations made in the report about maternal and child health service governance, participation rates, data collection, and the service's ability to meet the demands of a growing population. The Secretary of the Department of Health and Human Services noted the progress the department had made since the 2011 VAGO report *Maternity Services: Capacity*.

Our financial audits have also made a measurable impact on internal controls this year. Part of our financial audit process is to issue management letters to agencies highlighting the internal control weaknesses we find and making recommendations to resolve them. Agencies respond to these letters with their intended actions. We follow up on all these issues with management and report progress to audit committees to ensure appropriate action is taken. This year we saw a significant improvement in the number of issues being resolved.

For example, at the start of 2018–19 the technical and further education sector had 24 unresolved audit issues from prior years. During the year 75 per cent of these issues were resolved, including the five high-risk issues we had found. In the university sector, 79 per cent of issues from prior years were resolved.

Over the past three years, across all sectors, we have seen the average number of open issues remaining at the end of each year steadily decline. This demonstrates agency management’s commitment to a strong control environment and the positive, long-term impact of our approach.

4

Investing in our people



Our objectives	Our directions	What success looks like
Enable high performance by our people through a supportive culture, professional development and collaboration	Be clear about what we stand for Invest in excellence Get the mix right	Employee engagement has increased We develop, attract, and retain the talent we need

Our people are our most valuable and important assets. We have a highly qualified, professional workforce with a breadth of experience across a range of disciplines and fields relevant to public audit.

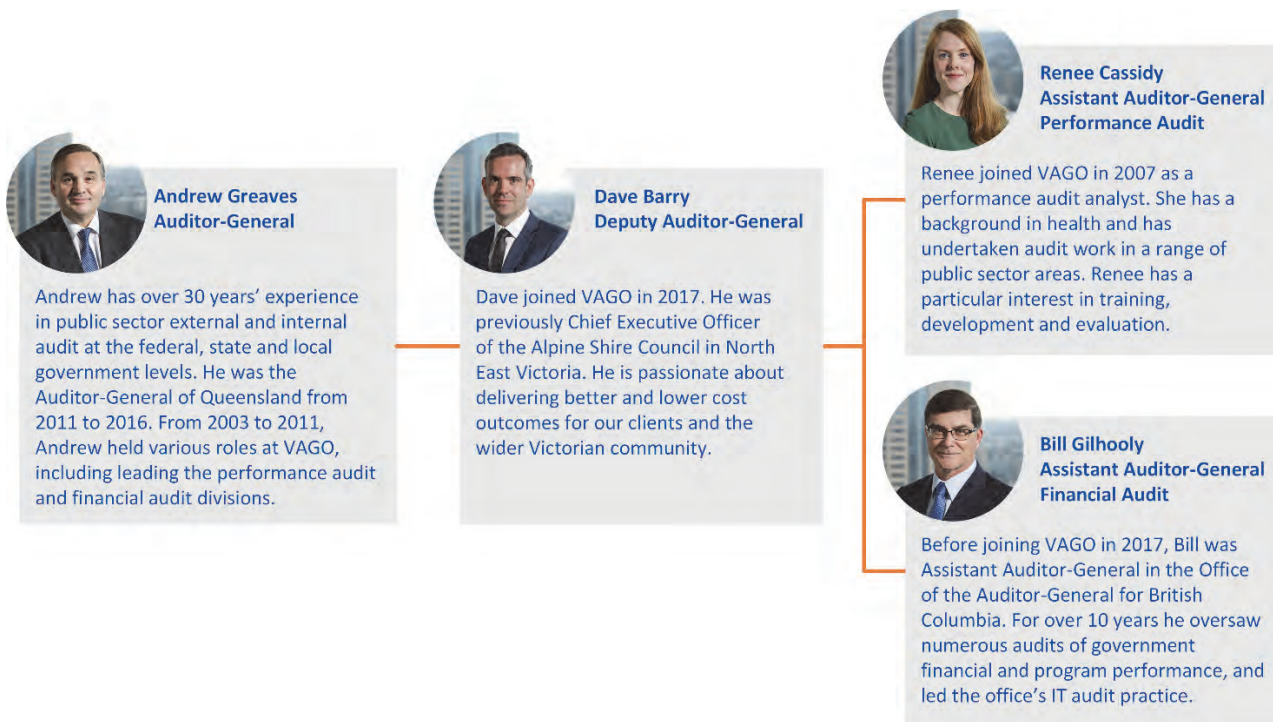
To help our workforce keep pace with the changes in our environment, we invest in the expertise our staff need. This year we have run training on appropriate behaviour as well as more technical training on Office 365, plain English and data analytics. We launched two key plans to shape our workplace into the future, a *Culture Plan*, and our first *Diversity and Inclusion Plan*. We also commenced re-evaluating how we outsource work, ensuring that we have the right mix of capability both internally and externally.

4.1 Our staff

Appendix A includes a profile of all VAGO employees. We have also updated our online workforce data dashboard, which is available at: www.audit.vic.gov.au/report/annual-report-2018-19.

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 85 women in 2018–19, making up 52.8 per cent of our workforce. However, women made up 100 per cent of our part-time workers and 50 per cent of our fixed-term employees. Our gender pay gap is 1.9 per cent, or about \$2 080.

Organisational structure



4.2 Human resources improvements

Improving our workplace culture

In May 2018, VAGO launched a new set of values that staff developed. Our values are respect, innovation, collaboration and accountability. The official launch included an eight-week campaign, with various values-focused activities occurring from June to August 2018.

We also received our 2018 People Matter Survey responses in June 2018 and analysed the results to understand how we could improve the everyday experience of our employees. Our employee engagement score was 66, and employee satisfaction was rated at 65. The areas that needed attention included appropriate behaviour and avenues of redress, wellbeing and workloads, and a lack of diversity focus.

To respond to staff feedback from the People Matter Survey and to keep the momentum from the launch of our new values, we developed our 2018–19 *Culture Plan* in consultation with the Staff Consultative Committee.

So far, we have:

- implemented appropriate behaviour resources specific to VAGO and reviewed our policies
- designed and delivered onsite appropriate behaviour training
- continued promoting positive mental health and wellbeing activities
- developed and launched VAGO's inaugural *Diversity and Inclusion Plan*

- established a values subcommittee to continue activities to embed our values
- reviewed our corporate processes and practices—including communications, recruitment, induction and training—to embed VAGO's values in our day-to-day work.

For the 2019 People Matter Survey, employee engagement was rated at 66, the same as 2018, but employee satisfaction fell to 60. We will continue implementing the *Culture Plan* initiatives into next year and will respond to the results of the 2019 survey.

Improving our diversity and inclusion

In March we launched our first *Diversity and Inclusion Plan* to help us become a more respectful, diverse and equitable organisation. We developed the plan in consultation with our employee representative groups.

We also engaged external stakeholders, including the Koorie Heritage Trust, the Aboriginal Employment Unit from the Victorian Public Sector Commission, the Victorian Public Sector (VPS) Pride Network, the National Institute for Challenging Homophobia Education and the VPS Enablers Network.

We will implement the action plan over a three-year period, so that the implemented changes are successfully and meaningfully embedded.

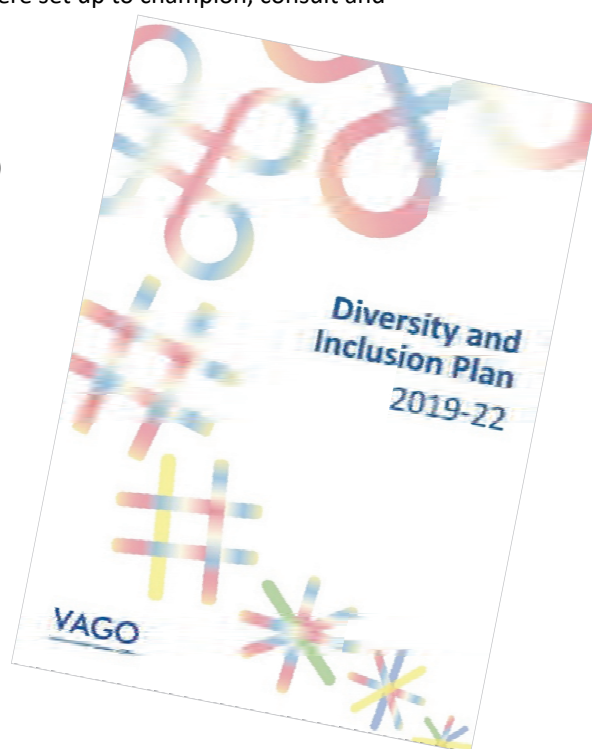
The plan has three phases:

1. raising awareness
2. internal education and introduction of new practices
3. external engagement.

Five employee representative groups were set up to champion, consult and advise on our focus areas, including:

- Aboriginal inclusion
- cultural diversity
- disability inclusion (focus on ability)
- lesbian, gay, bisexual, transgender and intersex inclusion
- women at work.

We launched the plan at our March Staff Forum where we welcomed Victorian Treaty Advancement Commissioner Jill Gallagher AO as our keynote speaker. We also hosted a panel discussion with Helen Kapalos from the Victorian Multicultural Commission, Thomas Fyfield from the VPS Pride Network and Adam Walton from the VPS Enablers Network.



It was encouraging to hear from our panellists, who are experts in diversity and inclusion, that VAGO is setting an example—especially in the public sector—in proactively raising awareness and putting attainable actions in place to build a more inclusive workplace.



We have hosted other diversity and inclusion events during the year. On International Women’s Day in March, we focused on women in the workplace when we hosted Katie Miller, Deputy Commissioner at the Independent Broad-based Anti-corruption Commission. She spoke about her success and experience in government, specifically how she progressed her career as a woman in leadership, and the changing nature of workplace culture.

Improving our skills

This year our learning and development program focused on mandatory training across the organisation in appropriate behaviour and plain English. The appropriate behaviour training aimed to help address some of the issues raised in the previous People Matter Survey. Staff found the sessions engaging and thought-provoking, and they aligned with our focus on diversity and inclusion.

The plain English training aims to help staff communicate clearly and succinctly. Some of the information we need to convey in our correspondence and reports is very complex. Being able to express ourselves well is fundamental to getting our messages across to parliamentarians and the public. We hope to improve the written communication skills of all staff, to help ensure our reports are easily understood and have maximum impact.

Another initiative implemented across the organisation was training in Microsoft Office 365, which allows staff to work collaboratively or independently, in and out of the office. The tools that VAGO staff need to communicate and work are more accessible than ever before. The sessions provided an overview of the new features of Office 365 with a particular focus on cloud-based access to both files and software applications. We are using feedback gathered in the sessions to develop new guidance materials, support tools and further training in 2019–20.

We also ran training to help integrate data analytics across the organisation. Both performance and financial audit staff undertook statistics training towards the end of 2018. These sessions covered descriptive analytics, sampling, regression analysis and other advanced concepts. We engaged the University of Melbourne to help provide training for performance audit staff and Audit Smarter to help provide training for our financial auditors.

We have also had some excellent opportunities for individuals that have helped build their capacity, as well as benefiting VAGO more broadly. One such opportunity was a six-month exchange with the Local Government Inspectorate. The exchange increased our collaboration and built knowledge about the way different integrity offices operate. The auditor gained more skills and knowledge and VAGO now has a permanent ongoing contact at the Inspectorate. We are more frequently exchanging information and leveraging off each other's expertise.

As well as being a valuable way of investing in our people, this secondment was also a way to share knowledge and expand the capability of Victoria's integrity agencies.

Improving our use of audit service providers

To complete our annual financial audits of over 500 agencies, VAGO engages a group of qualified audit service provider (ASP) firms to assist us. We use ASPs to get the right mix of skills and experience across our financial audit program. About 65 per cent of our audits, mostly those that are smaller or low risk, are currently outsourced to these firms to conduct audits on behalf of the Auditor-General.

This year we began reviewing our ASP arrangements and re-evaluating our approach. We will soon re-establish the audit service provider panel, in part to enhance and reinforce our ASP requirements to comply with our enhanced data protection and privacy needs.

We also want to make better use of the capacity and capability of these firms, and work with those that can align themselves with our data analytics approach and our strategic direction.

At the same time, we are improving our audit tendering process to make it more contemporary and fit for purpose. We have redesigned it to be more flexible and streamlined. These changes will take effect during 2019–20.

We have also considered our oversight of ASPs. During the year we developed a more risk-based framework for overseeing ASPs, which we will use during the 2019–20 audit cycle. As required by audit standards, this means we will have a more targeted, efficient approach to overseeing the work that ASPs do on behalf of the Auditor-General.

5

Leading by example



**Lead
by example**

Our objectives	Our directions	What success looks like
Model exemplary performance in everything we do	Simplify our business Embrace new technology Better intelligence to drive decisions	Workforce productivity has increased Our internal practices set the benchmark for public sector entities and other audit offices

VAGO's credibility depends on us being, and being seen to be, independent, competent and publicly accountable for our operations. To make this possible we need to lead by example.

The more we simplify our business, the more efficient we become and the more time we can dedicate to our audits. This year we have continued to streamline and automate core business processes. We implemented new technological solutions and improved our information security practices. Our improvements to human resources and payroll systems will save staff time and increase our productivity.

We continued to establish business intelligence systems that will give us simple and timely access to performance information. Our focus on fraud and corruption and improving our communications set an example for the broader public sector.

5.1 Technology updates

As in other recent years, we focused this year on updating our technology to address process issues, increase productivity and simplify operations. As mentioned in Section 2.2, we needed this capability improvement for specific projects, such as the financial audit dashboard, but there have also been several IT projects affecting the entire organisation.

To enable a more collaborative environment and allow our staff to work remotely, we have moved to using Microsoft Teams across the organisation. This change, as well as other improvements to our network, have made file sharing easier and allowed us to make the most of our investment in Microsoft Office 365.

This is one way we are harnessing new technologies and new ways of working to improve our capabilities, which is the intention of our refreshed IT strategy. The two-year strategy is shaped by industry insights and technology trends and reflects our future requirements.

We are now working with Azure, Microsoft's public cloud computing platform. It provides a range of cloud services, including those for computing, analytics, storage and networking. We use this service as Microsoft invests far more in information security than state government agencies can. Microsoft's cybersecurity budget exceeds USD 1 billion annually and our approach enables us to benefit from this investment.

This year we upgraded our human resources and payroll systems. Our old systems operated independently, which required multiple interfaces and the duplication of data. We replaced these programs with a cloud-based, integrated and easy-to-use system called SuccessFactors.

The new program has greater data capability and is a more flexible and configurable system. It will speed our payroll run, improve our data accuracy and integrity, improve our performance development process and be easier for staff to use. This was a key project for simplifying our business and is another good example of how we are using new IT solutions.

Another way that we are making the most of our new technologies is by gathering information that better informs our decision-making. We have a new project portfolio tool to prioritise investment and monitor progress, and managers are now able to access real-time information about their team's productivity.

5.2 Data protection

One of our major projects this year was reviewing our data protection practices and establishing an IT security framework.

We assessed all our information assets and classified them by considering the potential compromise to confidentiality, integrity and availability. We developed an information management framework to establish, implement and maintain information security controls. We ensure that only authorised people access information through approved processes, consistent with the Victorian Protective Data Security Standards and Australian Auditing Standards.

We have aligned our information security approach to the *Australian Government Secure Cloud Strategy, 2017*. This strategy recognises that appropriately certified cloud providers are significantly better placed than internal teams to implement and monitor security controls and achieve compliance.

We are increasing our compliance with the *Victorian Protective Data Security Framework* and also use the Australian Government's *Protective Security Policy Framework* and *Information Security Manual*.

Consistent with this guidance we focus on information security across the following domains:

security governance

ICT security

information security

personnel security

physical security

With the introduction of the revised *Audit Act 1994*, the Auditor-General now has greater discretion to share information with a broader range of persons and bodies, including ministers, public bodies, statutory office holders, law enforcement agencies and prosecutorial bodies. We can also share information with other Australian Auditors-General when it is in the public interest, excluding Cabinet-in-Confidence or commercially sensitive information.

Our new IT security framework will allow us to ensure that the information we gather is securely stored and responsibly shared. Part of this is ensuring that our staff engage in safe online behaviour. In March we ran a month-long cybersecurity campaign to educate staff about phishing and other cybersecurity threats.

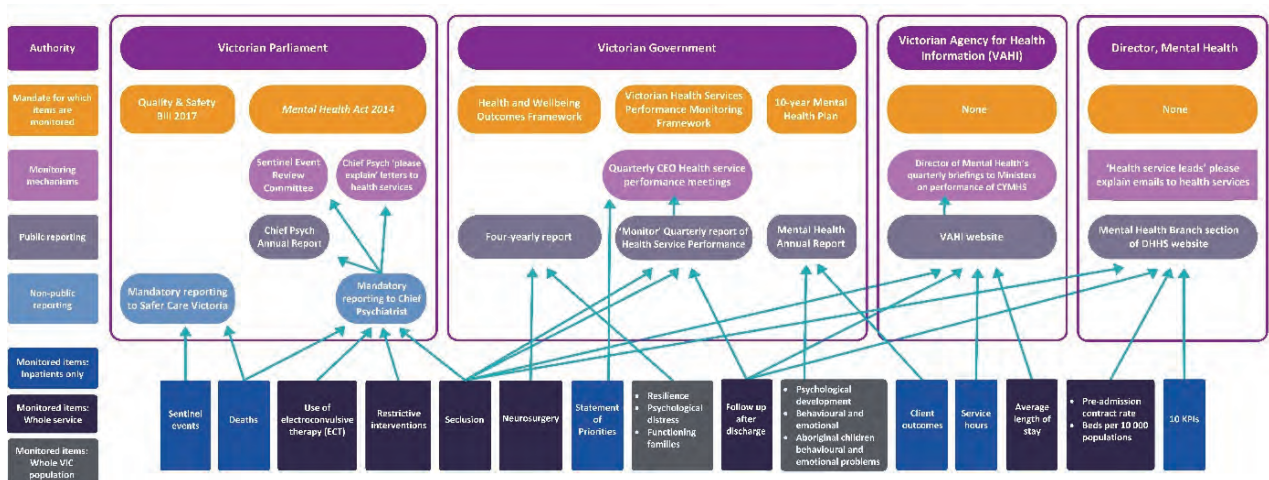
This year we have also enforced the application of protective markings to all VAGO documents, which is a method of classifying the sensitivity of information. This is required of all Victorian Government agencies under the *Privacy and Data Protection Act 2014*.

5.3 Clear communication

In an increasingly digital environment, the way people engage with information is changing. As an organisation that works in the public interest, we aim for all members of the public to be able to access our work, and easily comprehend our findings and recommendations.

To highlight our key messages, we have introduced more infographics and other vitalisations into our reports. These can be useful for clarifying complex information and turning it into something more easily understood. Conversely, these diagrams can also show where systems are particularly complicated.

This example from our *Child and Youth Mental Health* report illustrates the complexity of the oversight and performance monitoring system for child and youth mental health services.



We increased the graphic elements in our presentations, both those for parliamentarians and those available to the public on our website.

This year we also investigated new approaches to digital communication to plan for the future. We have researched better practice examples to make our work more accessible and engaging. While we are required to produce a printed report for tabling in parliament, we know that most people access our reports online and we aim for them to be easy to navigate and share. Our most popular report this year was viewed more than 3 500 times and our most popular video was viewed more than 1 000 times.

Top 10 most viewed videos in 2018–19	Top 10 most viewed reports on our website in 2018–19
<i>Melbourne Metro Tunnel Project—Phase 1: Early Works</i>	1 <i>Access to Mental Health Services</i>
<i>School Councils in Government Schools</i>	2 <i>Results of 2017–18 Audits: Local Government</i>
<i>Access to Mental Health Services</i>	3 <i>School Councils in Government Schools</i>
<i>Recovering and Reprocessing Resources from Waste</i>	4 <i>Delivering Local Government Services</i>
<i>Delivering Local Government Services</i>	5 <i>Child and Youth Mental Health</i>
<i>Managing Rehabilitation Services in Youth Detention</i>	6 <i>Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2017–18</i>
<i>Outcomes of Investing in Regional Victoria</i>	7 <i>Recovering and Reprocessing Resources from Waste</i>
<i>Results of 2017–18 Audits: Local Government</i>	8 <i>Outcomes of Investing in Regional Victoria</i>
<i>Child and Youth Mental Health</i>	9 <i>Reporting on Local Government Performance</i>
<i>Contract Management Capability in DHHS: Service Agreements</i>	10 <i>Local Government Insurance Risks</i>

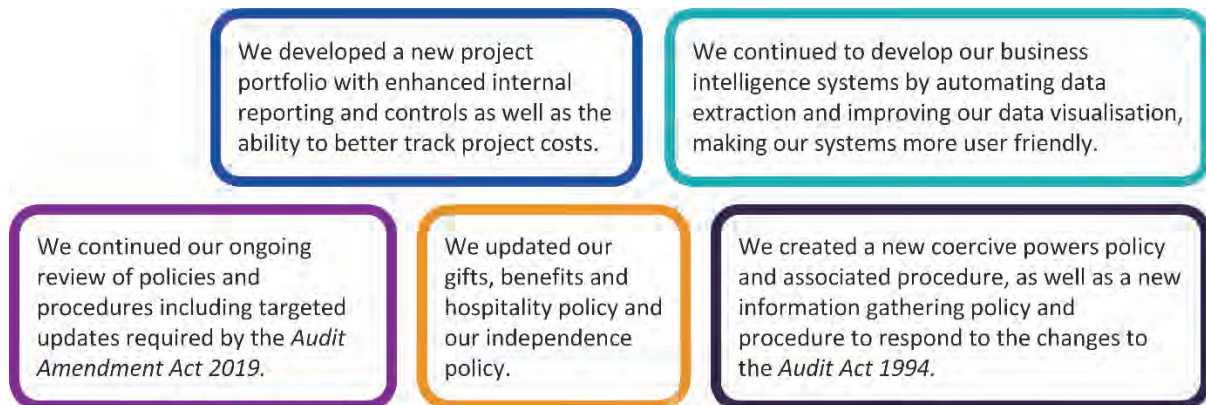
For this Annual Report we developed more dynamic, interactive elements for our website as we start to test some of our ideas and the technologies available.

We have also considered accessibility to our information on our website, assessed our level of compliance with the *Web Content Accessibility Guidelines 2.0* and explored options to improve our compliance with this standard.

5.4 Governance initiatives

VAGO is enhancing its governance and compliance systems and improving policies and procedures registers. We have also ensured we are meeting our obligations under the *Financial Compliance Management Framework* and the *Victorian Protective Data Security Framework*.

We have had several new initiatives across the organisation to develop our governance maturity and improve corporate knowledge of risk and compliance.



Improving our risk management systems has been a key activity. VAGO refreshed its risk profile and implemented updated controls. VAGO also developed a risk appetite statement, consulting with risk owners for input. We added a 'risk outlook' for each VAGO enterprise risk to improve the risk management report.

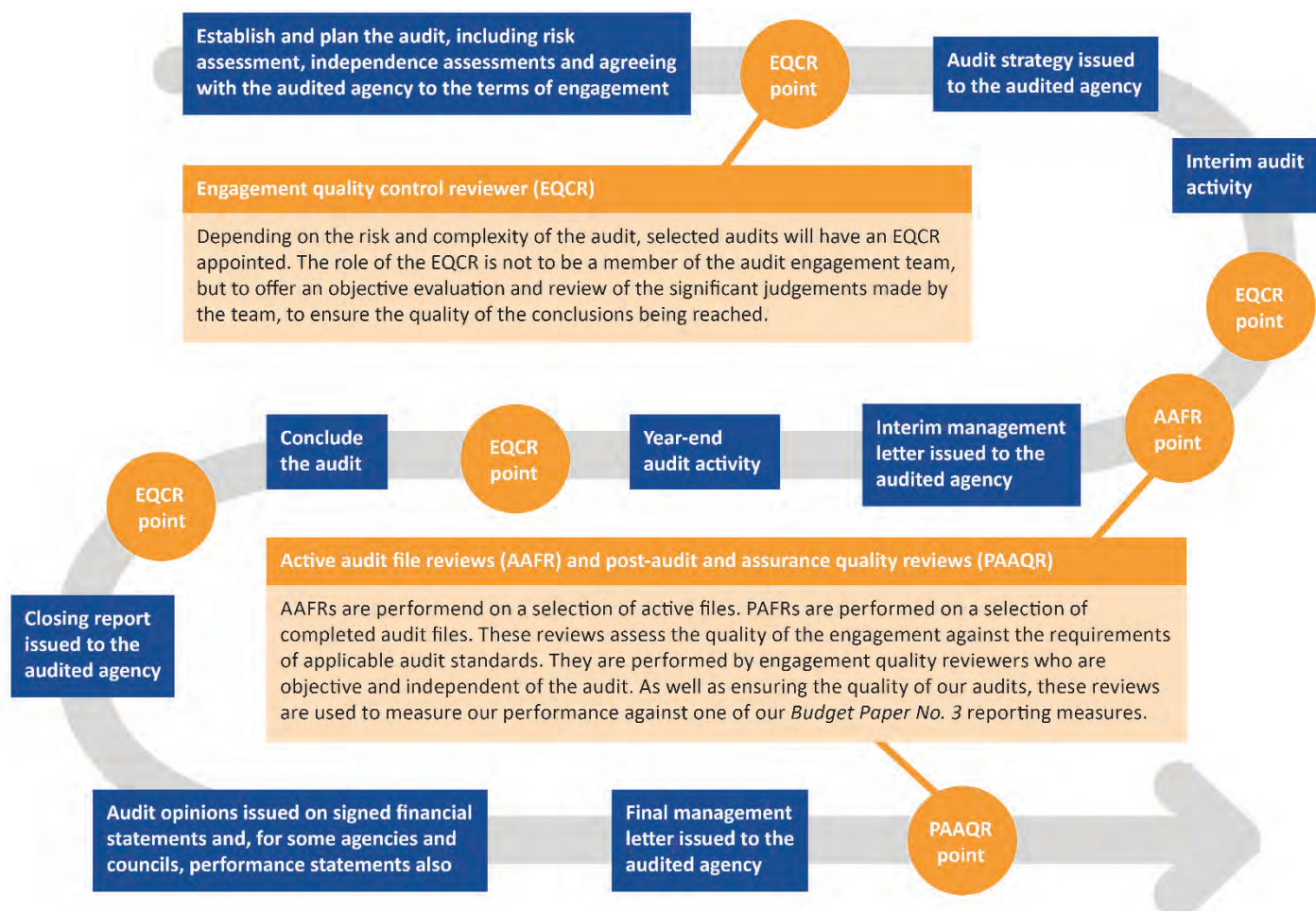
As one of Victoria's integrity agencies, VAGO is committed to proper use of public money, information and property, and safeguarding our own integrity and reputation. This year we finalised our new Fraud and Corruption Control Plan. The plan addresses internal and external fraud and corruption risks and shows how we manage these risks and the associated controls, including steps to minimise and manage the risk of fraud and detection and discovery systems.

VAGO has a regular training and development program on our policies and procedures to support our governance and compliance frameworks.

5.5 Assuring our audit quality

To provide the best value to Victorians through our insights we must ensure that we maintain our high standards. We aim to set the benchmark for other audit offices, and we believe our audit quality processes demonstrate exemplary practices.

This diagram shows 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, the Assistant Auditor-General of Financial Audit, the Director, Audit Quality and the Director, Financial Reporting Advisory, 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, an emphasis of matter paragraph, a qualification or a disclaimer. The audit report modification panel considers and recommends whether these modifications should be made to the Auditor-General. The panel includes the Assistant Auditor-General of Financial Audit and independent members of the technical team. Issuing a modified opinion requires the approval of the Auditor-General.

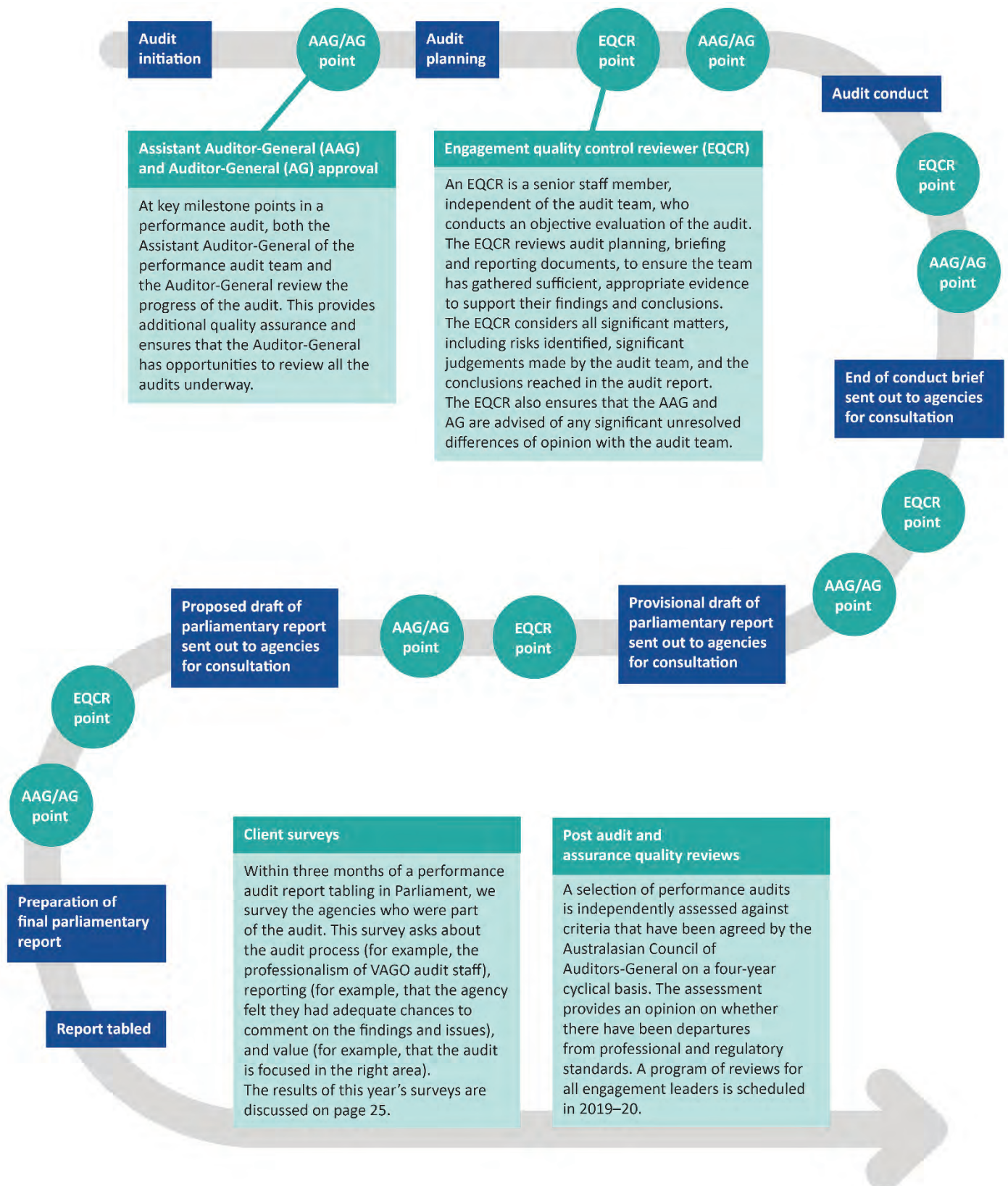
Technical consultation

In our technical 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 our technical 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 26.

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



6

Performance statement

Performance Statement for the year ending 30 June 2019

Declaration by the Auditor-General and Executive Officer

In our opinion, the measures used and results reported in the accompanying Performance Statement of the Victorian Auditor-General's Office in respect of the 2018–19 financial year are presented fairly, and are consistent with the Standing Directions under the *Financial Management Act 1994*.

The Statement includes the 2018–19 performance indicators agreed with the Assistant Treasurer as set out in *Budget Paper No. 3*, actual and comparative results achieved for the financial year against targets where applicable, and explanations of any significant and/or material variance between the actual results and performance targets.

As at the date of signing, we are not aware of any circumstance which would render any particulars in the Performance Statement to be misleading or inaccurate.

We authorise the attached performance statement for issue on 23 August 2019.



Andrew Greaves
Auditor-General
Victorian Auditor-General's Office

Melbourne
23 August 2019



Rachel Davis
Executive Officer, Office of the Auditor-General
Victorian Auditor-General's Office

Melbourne
23 August 2019

Output group 1—parliamentary reports and services

Performance measures	Unit of measure	2017–18 actual	2018–19 target	2018–19 actual	2018–19 per cent variation	Result	Notes
Quantity							
Average cost of parliamentary reports	(\$ thousand)	478	509	527.2	3.6		
Quality							
Percentage of performance audit recommendations accepted which are reported as implemented by audited agencies	(per cent)	81	80	78.4	-2.0		
Overall level of external satisfaction with audit reports and services—parliamentarians	(per cent)	88	85	73.6	-13.4		3.1
Timeliness							
Average duration taken to finalise responses to inquiries from Members of parliament	(days)	15	≤20	17	-	✓	
Average duration taken to produce performance audit parliamentary reports	(months)	10.5	≤9	10.1	12.2		3.2
Average duration taken to produce financial audit parliamentary reports after balance date	(months)	4.8	≤5	4.8	-	✓	
Cost							
Total output cost	(\$ million)	15.5	16.2	16.0	-1.2	✓	

Output group 2—audit opinions on financial and performance statements

Performance measures	Unit of measure	2017–18 actual	2018–19 target	2018–19 actual	2018–19 per cent variation	Result	Notes
Quantity							
Average cost of audit opinions issued on performance statements	(\$ thousand)	5.0	5.1	5.2	2.0		
Average cost of audit opinions issued on the financial statements of agencies	(\$ thousand)	48.2	51	48.4	-5.1	✓	3.3
Quality							
External/peer reviews finding no material departures from professional and regulatory standards	(per cent)	59	100	90.0	-10.0		3.4
Proportion of agencies disclosing prior period material errors in financial statements	(per cent)	1	≤5	0.9	-	✓	
Timeliness							
Audit opinions issued within statutory deadlines	(per cent)	98	98	98.3	0.3	✓	
Management letters to agencies issued within established time frames	(per cent)	81	90	93.7	4.1	✓	
Cost							
Total output cost	(\$ million)	27.6	27.3	27.1	-0.7	✓	

Key: ✓ Target achieved or exceeded.

Notes to the Performance Statement

for the year ended 30 June 2019

1. Basis of preparation

The Victorian Auditor-General's Office must report annually on expected and actual performance as part of parliament's departmental performance statement in *Budget Paper No. 3*. This information is not audited.

While we are not required to include an audited departmental performance statement in our Annual Report, Financial Reporting Direction (FRD) 8D requires departments to annually provide a comparison of output targets and actual performance in their report of operations, and reasons for any significant or material variances.

In the absence of any broad mandatory performance reporting standards, we have prepared this performance statement in a format consistent with that used in *Budget Paper No. 3*, and in line with the Standing Directions under the *Financial Management Act 1994*, Performance Management Framework, and FRD 8D.

This performance statement includes the performance measures, targets and results of our two parliamentary output groups, with explanations of significant variations between targets and actual results. We deem significant as greater than a 5 per cent variance. We have not provided notes for variations within the materiality thresholds.

Where applicable the results in the performance statement have been prepared on bases consistent with those reported in the audited Financial Statements.

2. Output measures

The products and services we deliver are organised into two parliamentary output groups in *Budget Paper No. 3*. Output Group 1 covers parliamentary reports and services, and Output Group 2 covers audit opinions on financial and performance statements. We have performance measures and targets for quantity, quality, timeliness and cost, across both our output groups.

Measure	Dimension	Goal	Calculation
Output group 1—parliamentary reports and services			
Average cost of parliamentary reports	Quantity	Tracks the cost efficiency of our products	Total lifecycle cost of parliamentary reports tabled during 2018–19 / Total number of parliamentary reports tabled during 2018–19 (excluding Annual Plan and Annual Report)
Percentage of performance audit recommendations accepted which are reported as implemented by audited agencies	Quality	Tracks VAGO's effectiveness and relevance across the public sector	Total number of accepted in-principle, partially and fully accepted performance audit recommendations issued two and three years prior / Total number of accepted performance audit recommendations issued two and three years prior
Overall level of external satisfaction with audit reports and services — parliamentarians	Quality	Tracks the overall level of external satisfaction with our reports and services of our key stakeholder	Total number of parliamentarians who stated they were satisfied or very satisfied / Total number of parliamentarians who responded to the question in the survey
Average duration taken to finalise responses to inquiries from members of parliament	Timeliness	Tracks the efficiency with which VAGO responds to inquiries from respective parliamentarians	Number of business days between the date the inquiry is received and the date the response is sent out

Measure	Dimension	Goal	Calculation
Average duration taken to produce performance audit parliamentary reports	Timeliness	Tracks the efficiency with which VAGO utilises resources to produce its reports	Total number of months between the initiation date and tabling date of all performance audit parliamentary reports tabled in 2018–19 / Total number of performance audit parliamentary reports tabled in 2018–19
Average duration taken to produce financial audit parliamentary reports after balance date	Timeliness		Total number of months between the balance sheet date of the sector and the tabling date of all financial audit parliamentary reports tabled in 2018–19 / Total number of financial audit parliamentary reports tabled in 2018–19
Total output cost	Cost	Tracks the cost efficiency of the whole of VAGO	Total expenditure allocated to the output group, net of recoup of salaries and expenses
Output group 2—audit opinions on financial and performance statements			
Average cost of audit opinions issued on performance statements	Quantity	Tracks the cost efficiency of our products	Total lifecycle cost of audit opinions issued on performance statements during 2018–19 (actual or estimated) / Total number of audit opinions issued on performance statements during 2018–19
Average cost of audit opinions issued on the financial statements of agencies	Quantity		Total lifecycle cost of audit opinions issued on financial statements during 2018–19 / Total number of audit opinions issued on financial statements during 2018–19
External/peer reviews finding no material departures from professional and regulatory standards	Quality	Tracks the quality of our audit processes	Total number of financial audit engagement files subject to post audit quality reviews during 2018–19 that contain material departures from professional and regulatory standards / Total number of financial audit engagement files subjects to post audit quality reviews during 2018–19
Proportion of agencies disclosing prior period material errors in financial statements	Quality	Tracks the quality of our work outcomes	Total number of agencies disclosing a prior period material error during 2018–19 / Total number of agencies issued with an audit opinion during 2018–19
Audit opinions issued within statutory deadlines	Timeliness	Tracks the timeliness of our work	Total number of audit opinions issued within 28 days of the receipt of finalised financial statements in 2018–19 / Total number of audit opinions issued in 2018–19
Management letters to agencies issued within established timeframes	Timeliness	Tracks the timeliness of our work	Total number of finalised management letters issued to agencies within 28 days of the audit opinion being issued during 2018–19 / Total number of finalised management letters issued to agencies during 2018–19
Total output cost	Cost	Tracks the cost efficiency of the whole of VAGO	Total expenditure allocated to this output group net of recoup of salaries and expenses

3. Explanation of significant variances

- 3.1 We annually survey parliamentarians to find out how satisfied they are with our reports and services. This year 73.6 per cent of parliamentarians surveyed stated they were satisfied or very satisfied with our reports and services, compared to 88 per cent last year. The lower satisfaction rate reflects the increase in new members of parliament following the November 2018 election and their limited exposure to VAGO's products and services, meaning they had a neutral position on VAGO's reports and services. 86 per cent of returning members of parliament surveyed stated that they were satisfied or very satisfied with our reports and services.
- 3.2 The duration of our performance audit parliamentary reports is measured from the formal initiation of the audit to the tabling date. Overall, our performance audit parliamentary reports were delivered later than expected, with results improving from the prior year. Usual practice for VAGO is to table reports on parliamentary sitting days. However, the 2018 election and the change in the release date of the Victorian budget, with the unexpected break in April, resulted in reports being postponed. Challenges in accessing data and resourcing issues also contributed to the longer duration to produce performance audit parliamentary reports.
- In comparison the state and territories ACAG benchmark average elapsed time for performance audits in 2017–18 (the latest available data) was 10.2 months.
- 3.3 The average cost of audit opinions issued on financial statements was \$48 400, which is similar to our prior year result of \$48 200. The lower than target result is partly due to efficiencies from greater use of data analytics, which allowed us to keep overall fees charged to agencies relatively unchanged from the prior year.
- 3.4 Data for this audit quality measure is obtained through quality reviews of a targeted selection of completed financial audits as part of our three-year review quality assurance coverage plan. 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.
- We did not meet our target: 10 per cent of our targeted sample of reviewed audit files were found to have some material departures from professional standards (i.e. one out of ten audit files reviewed). However, this is better than industry published rates and a significant improvement on the prior year result of 59 per cent.
- Our findings do not necessarily mean there are material misstatements in the overall financial reports of these entities. Rather, in our view, in these cases we did not demonstrate a sufficient basis to form and issue these opinions. In addition, there was a very low rate of disclosure of prior period errors by agencies during 2018–19 indicating that material departures are not resulting in a high level of material misstatements.

Independent Auditor's Report



Independent Auditor's Review Report to the Auditor-General in relation to the Victorian Auditor-General's Office

Report on the Performance Report

We have reviewed the accompanying performance report, included within the annual report, which comprises the key performance indicators for the 2019 financial year.

Auditor-General's Responsibility for the Performance Report

The Auditor-General is responsible for the preparation of the performance report. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation of the performance report to ensure that the report fairly represents the key performance indicators of efficiency and effectiveness.

Auditor's Responsibility

Our responsibility is to express a conclusion on the performance report based on our review. We conducted our review in accordance with Standard on Review Engagements ASRE 2405 *Review of Historical Financial Information Other than a Financial Report*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the performance report does not present fairly the key performance indicators of efficiency and effectiveness. As the auditor of the entity, ASRE 2405 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a performance report consists of making enquiries, primarily of persons responsible for financial and accounting matters and applying other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the Australian professional ethical pronouncements.

Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the performance report does not present fairly the key performance indicators of efficiency and effectiveness for the year ended 30 June 2019.

A stylized signature of the Nexia firm.

Nexia Melbourne Audit Pty Ltd
Melbourne

A handwritten signature of Geoff S. Parker.

Geoff S. Parker
Director

Dated this 23rd day of August 2019

Nexia Melbourne Audit Pty Ltd
Registered Audit Company 291969
Level 12, 31 Queen Street
Melbourne VIC 3000
p +61 3 8613 8888
f +61 3 8613 8800
e info@nexiamelbourne.com.au
w nexia.com.au

Liability limited by a scheme approved under Professional Standards Legislation.

Nexia Melbourne Audit Pty Ltd (ABN 86 005 105 975) is an independent firm of Chartered Accountants. It is affiliated with, but independent from Nexia Australia Pty Ltd, which is a member of Nexia International, a worldwide network of independent accounting and consulting firms. Neither Nexia International nor Nexia Australia Pty Ltd, deliver services in its own name or otherwise. Nexia International Limited and the member firms of the Nexia International network (including those members which trade under a name which includes NEXIA) are not part of a worldwide partnership.

The trademarks NEXIA INTERNATIONAL, NEXIA and the NEXIA logo are owned by Nexia International Limited and used under licence.

7

Managing our finances

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. This year's results reflect the ongoing embedding of our change initiatives.

Figure 7A
Financial summary 2018–19 and previous four years

Item	2018–19 (\$'000)	2017–18 (\$'000)	2016–17 (\$'000)	2015–16 (\$'000)	2014–15 (\$'000)	Movement from 2017–18 to 2018–19 (\$'000)	Change from 2017–18 to 2018–19 (percentage)
Total revenue	44 831	45 276	43 763	41 384	39 698	(445)	-1%
Total expenses	43 216	43 263	46 907	41 301	39 161	47	0%
Surplus/deficit	1 615	2 013	(3 144)	83	537	(398)	-20%
Financial assets	20 608	19 955	25 619	16 962	15 019	653	3%
Non-financial assets	5 639	5 968	6 463	1 386	1 803	(329)	-6%
Total assets	26 247	25 923	32 082	18 348	16 822	324	1%
Total liabilities	12 399	18 360	26 532	9 654	8 211	(5 961)	-32%
Net assets	13 848	7 563	5 550	8 694	8 611	6 285	83%

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 indicating that we are operating in a fiscally responsible and sustainable manner.

Figure 7B
Surplus/deficit as percentage of total revenue

2018–19	2017–18	2016–17	2015–16	2014–15	Five-year average
3.6%	4.4%	-7.2%	0.2%	1.4%	0.5%

This year's surplus was due largely to a continued realisation of cost savings across all expense categories, with a focus on IT consultants.

Net assets

We remain in a strong financial position, with the improvement in our financial position driven by the operating surplus and the repayment of the public account advance funded by contributed capital. Working capital is sufficient to fund our operations over the forward estimates period.

Figure 7C
Net assets as a percentage of total assets

2018–19	2017–18	2016–17	2015–16	2014–15	Five-year average
52.8%	29.2%	17.3%	47.4%	51.2%	37.1%

The future

We budget for breakeven in 2019–20, 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 \$1 615 000, compared with a surplus of \$2 013 000 in 2017–18.

Figure 7D
Revenues and expenses

Item	2018–19 (\$'000)	2017–18 (\$'000)	2016–17 (\$'000)	2015–16 (\$'000)	2014–15 (\$'000)	Movement from 2017–18 to 2018–19 (\$'000)	Change from 2017–18 to 2018–19 (percentage)
General appropriation	17 004	16 589	16 184	15 789	15 404	415	3%
Special appropriation	577	569	590	576	541	8	1%
Section 29	27 061	27 942	26 586	24 732	23 536	(881)	-3%
Other	189	176	403	287	217	13	8%
Total revenue	44 831	45 276	43 763	41 384	39 698	(445)	-1%
Total expenses	43 216	43 263	46 907	41 301	39 161	(47)	0%
Surplus/(deficit)	1 615	2 013	(3 144)	83	537	(398)	-20%

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 decreased 1 per cent in 2018–19 through a combination of slightly lower section 29 revenue from audit engagement fees, offset by the indexation of our general appropriation in line with inflation.

Other revenue increased due to an increase in the reimbursement for performing the ACAG Financial Reporting and Accounting Council secretariat role.

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	2018–19 (\$'000)	2017–18 (\$'000)	2016–17 (\$'000)	2015–16 (\$'000)	2014–15 (\$'000)	Movement from 2017–18 to 2018–19 (\$'000)	Change from 2017–18 to 2018–19 (percentage)
Depreciation	804	839	583	657	765	(35)	-4%
Employee expenses	23 838	23 801	27 809	23 715	23 238	38	0%
Contract audit services	12 825	12 547	12 154	11 893	10 446	278	2%
Rental expenses – accommodation	1 946	1 864	1 530	1 520	1 514	82	4%
Other expenses	3 803	4 212	4 831	3 516	3 198	(409)	-10%
Total expenses	43 216	43 263	46 907	41 301	39 161	(47)	0%

Our employee expenses were consistent with the prior year, due to a lower overall headcount countering pay increases.

Our depreciation expense has slightly declined in the current year due to a small number of assets being fully depreciated.

Our audit service provider contractor expenditure of \$11.53 million is broadly in line with last year's (\$11.80 million). We continue to use contracted subject-matter experts in our performance audit area (\$1 290 000 compared to \$743 000 in 2017–18) 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.

The 10 per cent decrease in remaining expenses reflects the organisation's ongoing transformation activities and focus on change initiatives.

7.3 Financial position

Balance sheet

Our financial position at 30 June 2019 remained strong, with total assets of \$26.2 million, total liabilities of \$12.4 million and net assets of \$13.8 million.

Figure 7F

Assets and liabilities movement

Item	2018–19 (\$'000)	2017–18 (\$'000)	2016–17 (\$'000)	2015–16 (\$'000)	2014–15 (\$'000)	Movement from 2017–18 to 2018–19 (\$'000)	Change from 2017–18 to 2018–19 (percentage)
Financial assets	20 608	19 955	25 619	16 962	15 019	653	3%
Non-financial assets	5 639	5 968	6 463	1 386	1 803	(329)	-6%
Total assets	26 247	25 923	32 082	18 348	16 822	324	1%
Total liabilities	12 399	18 360	26 532	9 654	8 211	(5 961)	-32%
Net assets	13 848	7 563	5 550	8 694	8 611	6 285	83%

Assets

Our total financial assets increased by \$0.6 million related to the State Administration Unit receivable. The increase was due to the operating surplus, offset by a decrease in payables.

Non-financial assets have decreased by \$0.3 million due to depreciation of assets being only partially offset by new asset acquisitions.

Liabilities

Our liabilities decreased by \$5.9 million (32 per cent), primarily due to the partial repayment of the public account advance of \$4.7 million, and significantly lower payables and accruals due to the timing of payment runs aligning with year end.

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	2018–19 (\$'000)	2017–18 (\$'000)	Change (\$'000)	Change (percentage)
Net cash flows from / (used in) operating activities	(4 230)	488	(4 718)	-967%
Net cash flows from / (used in) investing activities	(461)	(346)	(115)	33%
Net cash flows from / (used in) financing activities	4 691	(142)	4 833	-3 413%
Net increase / (decrease) in cash held	-	-	-	-
Cash at the beginning of the financial year	1	1	-	0%
Cash at the end of the financial year	1	1	-	0%

Our net surplus for the year under an accrual basis is \$1.61 million. The net cash outflow from operating activities of \$4.23 million was due to the repayment of \$4.7 million of the public account advance and the decrease in payables.

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 2018–19, we engaged six consultancies that had total fees payable greater than \$10 000, as outlined in Figure 7H. We also engaged two consultancies where the total fees payable were less than \$10,000, with a total expenditure of \$13 000 (excluding GST).

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

Consultancy	Purpose of consultancy	Start date	End date	Total approved project fee (excluding GST) (\$'000)	Expenditure 2018–19 (excluding GST) (\$'000)	Future expenditure (excluding GST) (\$'000)
ArcBlue Asia Pacific	Audit Service Provider Panel project	18-Mar-19	15-Apr-19	13	13	-
Bastion S & GO Pty Ltd	Advice on stakeholder engagement	3-Sep-18	16-Oct-18	62	62	-
Cube Group	Business continuity plan – impact assessment	4-Apr-19	18-Apr-19	13	13	-
Protiviti Pty Ltd	Development of fraud and corruption control plan	29-Oct-18	17-Dec-18	37	37	-
Sense of Security	Development of physical & operational controls	13-Jun-18	29-Jun-18	14	14	-

Performance audit consultants

In 2018–19, we paid \$1.29 million (\$0.74 million in 2017–18) to 25 consultants for services related to performance audits.

Figure 7I

Payments to performance audit consultants

Performance audit consultants	2018–19 (\$'000)	2017–18 (\$'000)
ACER	-	27
Aski	105	235
Cathy Edmonds	11	-
Dr Penelope Mitchell	17	-
Eileen Hayes	16	-
Finity Consulting Pty Ltd	107	180
Frontier Economics Pty Ltd	43	-
GHD Pty Ltd	245	-
Guidera Consulting Group Pty Ltd	-	81
Hivint Pty Ltd	83	-
KordaMentha Forensic	-	137
Lion Partnership	-	40
Monash University	29	-
Notitia Pty Ltd	11	-
O'Connor Marsden & Associates Pty Ltd	102	-
Paul Tridgell Pty Ltd	42	-
Privasec Pty Ltd	58	-
Protiviti Pty Ltd	167	-
Rail Advisory Services Pty Ltd	29	-
Risk Insights Pty Ltd	40	-
Security Infrastructure Solutions	150	-
TDF Advisory Services Pty Ltd	12	-
Victorian Government Solicitor's Office ^(a)	-	20
Other – 7 service providers (5 in 2017–18)	23	23
Total	1 290	743

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

Financial audit service providers and consultants

In 2018–19, we paid \$11.5 million (\$11.8 million in 2017–18) to 29 audit firms or consultants that provided services related to our financial statement audits.

Figure 7J

Payments to financial audit service providers and consultants

Financial audit service provider and consultants	2018–19 (\$'000)	2017–18 (\$'000)
Accounting and Auditing Solutions	72	67
BDO East Coast Partnership	25	-
Crowe Horwath	866	834
Crowe Horwath Albury	391	485
Crowe Horwath Vic	560	636
Crowe Horwath West Vic	56	88
Davidsons Assurance Services Pty Ltd	39	44
Deloitte Access Economics Pty Ltd	48	-
Deloitte Actuaries & Consultants Ltd	15	-
DFK Kidsons	259	268
DMG Audit and Advisory	301	241
Ernst & Young	1 276	801
HLB Mann Judd (VIC Partnership)	2 491	2 601
Johnsons MME	426	383
KPMG	131	543
LD Assurance	108	135
McLaren Hunt	432	405
McLean Delmo Bentleys Pty Ltd	490	517
MGR Accountants Pty Ltd	-	20
Moore Stephens Audit (Vic)	29	39
PPT Professional Pty Ltd	25	62
RSD Audit	1 095	1 036
RSM Australia Pty Ltd	2 370	2 567
Shine Wing Australia	11	-
Other—6 service providers (3 in 2017–18)	19	32
Total	11 535	11 804

Information and communications technology expenditure

In 2018–19, we had ICT expenditure of \$2 073 000.

Figure 7K
ICT expenditure

Expenditure type	Expenditure (\$'000)
Business as usual (BAU) ICT expenditure	1 465
Non-BAU ICT expenditure	608
Operational expenditure	200
Capital expenditure	408

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 2018–19: 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 are classified into either controlled or administered categories, as agreed with the Treasurer in the context of the published statements in BP5. The following statement is not subject to audit and is not prepared on the same basis as VAGO's financial statements as it includes the consolidated financial information of the parliament entity.

Figure 7L

Comprehensive operating statement for parliament

	2018–19				
	Budget			Actual	Variance ^(b)
	parliament (\$'000)	VAGO (\$'000)	Controlled parliament ^(a) (\$'000)	VAGO (\$'000)	VAGO (\$'000)
Income from transactions					
Output appropriations	136 909	43 466	180 375	44 065	599
Special appropriations	48 846	572	49 418	577	5
Sale of goods and services	26 742	-	26 742	151	151
Grants	486	-	486	-	-
Fair value of services received free of charge or for nominal consideration	-	45	45	38	(7)
Total income from transactions	212 983	44 083	257 066	44 831	748
Expenses from transactions					
Employee benefits	110 928	25 452	136 380	23 838	1 614
Depreciation and amortisation	15 118	931	16 049	804	127
Interest expense	88	2	90	17	(15)
Capital asset charge	6 732	376	7 108	376	-
Payments into consolidated fund	27 047	-	27 047	-	-
Other operating expenses	52 917	17 322	70 239	18 035	(713)
Total expenses from transactions	212 830	44 083	256 913	43 070	1 013
Net result from transactions (net operating balance)	153	-	153	1 761	1 761

(a) Budget figures are as published in *Statement of Finances 2018–19: Budget Paper No.5*, page 146 (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.....	63
Independent Auditor’s Report.....	64
Comprehensive Operating Statement	66
Balance Sheet.....	67
Cash Flow Statement	68
Statement of Changes in Equity.....	69
Notes to financial statements.....	70
1 About this report	70
2 Funding delivery of our services.....	71
3 The cost of delivering our services	73
4 Controlled and administered items	76
5 Key assets available to support output delivery	80
6 Other assets and liabilities.....	85
7 How we financed operations.....	89
8 Risks and valuation judgements	91
9 Other disclosures	95

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 Assistant Treasurer 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 2019 and financial position of VAGO at 30 June 2019.

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 23 August 2019.



Andrew Greaves
Auditor-General
Victorian Auditor-General's Office

Melbourne
23 August 2019



Narelle Whinfield
Finance Director
Victorian Auditor-General's Office

Melbourne
23 August 2019

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 2019, 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 2019 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 2019, 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.

Nexia Melbourne Audit Pty Ltd
Registered Audit Company 291969
Level 12, 31 Queen Street
Melbourne VIC 3000
p +61 3 8613 8888
f +61 3 8613 8800
e info@nexiamelbourne.com.au
w nexia.com.au

Liability limited by a scheme approved under Professional Standards Legislation.

Nexia Melbourne Audit Pty Ltd (ABN 86 005 105 975) is an independent firm of Chartered Accountants. It is affiliated with, but independent from Nexia Australia Pty Ltd, which is a member of Nexia International, a worldwide network of independent accounting and consulting firms. Neither Nexia International nor Nexia Australia Pty Ltd, deliver services in its own name or otherwise. Nexia International Limited and the member firms of the Nexia International network (including those members which trade under a name which includes NEXIA) are not part of a worldwide partnership.

The trademarks NEXIA INTERNATIONAL, NEXIA and the NEXIA logo are owned by Nexia International Limited and used under licence.

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 23rd day of August 2019



Comprehensive Operating Statement

for the financial year ended 30 June 2019

	Note	2018–19 \$'000	2017–18 \$'000
Income from transactions			
Output appropriations	2.1	44,065	44,531
Special appropriations		577	569
Sale of services and other income	2.2.1	189	176
Total income from transactions		44,831	45,276
Expenses from transactions			
Employee expenses	3.1.1	23,838	23,801
Contracted audit services provided by professional firms	3.2	12,825	12,547
Operating lease payments - accommodation	3.3	1,946	1,864
Depreciation	5.1.2	804	839
Interest expense		17	14
Consultants and contractors		544	982
Other operating expenses	3.4	3,096	3,103
Total expenses from transactions		43,070	43,150
Net result from transactions (net operating balance)		1,761	2,126
Other economic flows included in net result			
Net gain / (loss) on non-financial assets	7.2.1	3	(29)
Other gains / (losses) from other economic flows		(149)	(84)
Total other economic flows included in net result		(146)	(113)
Net result		1,615	2,013
Comprehensive result gain / (loss)		1,615	2,013

The accompanying notes form part of these financial statements.

Balance Sheet

as at 30 June 2019

	Note	2018–19 \$'000	2017–18 \$'000
Assets			
Financial assets			
Cash	7.2	1	1
Receivables	6.1	20,607	19,954
Total financial assets		20,608	19,955
Non-financial assets			
Property, plant and equipment and intangible assets	5.1.2	5,064	5,403
Other non-financial assets	6.2	575	565
Total non-financial assets		5,639	5,968
Total assets		26,247	25,923
Liabilities			
Payables	6.3	6,332	12,546
Finance lease liabilities	7.1	176	155
Employee related provisions	3.1.2	4,869	4,880
Other provisions	6.4	1,022	779
Total liabilities		12,399	18,360
Net assets		13,848	7,563
Equity			
Accumulated surplus		8,883	7,268
Contributed capital	2.1	4,965	295
Net worth		13,848	7,563

The accompanying notes form part of these financial statements.

Cash Flow Statement

for the financial year ended 30 June 2019

	Note	2018–19 \$'000	2017–18 \$'000
Cash flows from operating activities			
Receipts			
Appropriation receipts from Government		46,648	57,457
Receipts from other entities		151	143
Total receipts		<u>46,799</u>	<u>57,600</u>
Payments			
Payments to suppliers and employees		(50,020)	(55,877)
Goods and Services Tax paid to the ATO ⁽ⁱ⁾		(628)	(873)
Capital asset charge payments		(376)	(359)
Interest and other costs of finance paid		(5)	(3)
Total payments		<u>(51,029)</u>	<u>(57,112)</u>
Net cash flows from / (used in) operating activities	7.2.1	<u>(4,230)</u>	<u>488</u>
Cash flows from investing activities			
Purchases of non-financial assets		(481)	(494)
Sales of non-financial assets		20	148
Net cash flows from / (used in) investing activities		<u>(461)</u>	<u>(346)</u>
Cash flows from financing activities			
Owner contributions – appropriation for capital expenditure purposes	2.1	4,670	-
Proceeds from finance leases		72	73
Repayment of finance leases		(51)	(215)
Net cash flows from / (used in) financing activities		<u>4,691</u>	<u>(142)</u>
Net increase / (decrease) in cash held		-	-
Cash at the beginning of the financial year		<u>1</u>	<u>1</u>
Cash at the end of the financial year	7.2	<u><u>1</u></u>	<u><u>1</u></u>

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 2019

	Accumulated surplus \$'000	Contributed capital \$'000	TOTAL \$'000
Balance at 1 July 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
Net result for the year	1,615	-	1,615
Capital appropriations	-	4,670	4,670
Balance at 30 June 2019	8,883	4,965	13,848

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).

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>	<i>Financial Management Act 1994</i>	Total	Appropriations	Variance ⁽ⁱⁱ⁾
	Annual	Section 29	parliamentary	applied	
	\$'000	\$'000	authority	\$'000	\$'000
2018–19					
Controlled					
Provision for outputs	17,004	26,462	43,466	44,065	(599)
Addition to net assets ⁽ⁱ⁾	4,670	-	4,670	4,670	-
Total 2018–19	21,674	26,462	48,136	48,735	(599)
2017–18					
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)

(i) In 2016–17, VAGO received a public account advance under section 37 FMA of \$8.54 million. This did not require a warrant, but allowed 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, and was provided mainly so that VAGO could fund its office relocation in 2016–17. In 2018–19, VAGO received an appropriation of \$4.67 million, being funding designated for additions to net assets. Under an agreement with the Victorian Government, this was used to repay the remaining balance of the section 37 advance in 2018–19, and is disclosed as Contributed capital in the Balance Sheet.

(ii) The variance from estimate in 2017–18 and 2018–19 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	
		2018–19	2017–18
		\$'000	\$'000
The <i>Constitution Act 1975</i> , section 94A(6)	Costs associated with the Auditor-General	577	569

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 (Parliament 2018–19) Act 2018*.

Output appropriations: Income from the outputs VAGO provides to parliament is recognised when the outputs have been delivered and the Assistant Treasurer and the Treasurer have certified delivery of the outputs in accordance with specified performance criteria as outlined in the 2018–19 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:

	2018–19 \$'000	2017–18 \$'000
Fee for services		
Audit fees	26,462	26,012
Total annotated income agreements	26,462	26,012

2.2 Other income from transactions

2.2.1 Sale of services and other income

	2018–19 \$'000	2017–18 \$'000
Sale of services ⁽ⁱ⁾	151	143
Fair value of services received free of charge or for nominal consideration ⁽ⁱⁱ⁾	38	33
Total sale of services and other income	189	176

(i) Arises from the recovery of costs of secretariat services for the Australasian Council of Auditors-General (ACAG). 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.

(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

		2018–19	2017–18
		\$'000	\$'000
Salaries and wages, annual leave and long service leave		21,943	21,786
Defined contribution superannuation expense	3.1.3	1,696	1,884
Defined benefit superannuation expense	3.1.3	62	69
Termination benefits		137	62
Total employee expenses		23,838	23,801

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.

	2018–19 \$'000	2017–18 \$'000
Current provisions		
<i>Annual leave</i>		
Unconditional and expected to settle within 12 months	1,094	1,156
Unconditional and expected to settle after 12 months	303	340
	1,397	1,496
<i>Long service leave</i>		
Unconditional and expected to settle within 12 months	441	305
Unconditional and expected to settle after 12 months	2,025	1,904
	2,466	2,209
<i>Provision for on-costs</i>		
Unconditional and expected to settle within 12 months	237	224
Unconditional and expected to settle after 12 months	365	347
	602	571
<i>Performance incentive entitlements</i>		
Unconditional and expected to settle within 12 months	-	82
<i>Termination payments</i>		
Conditional and expected to settle within 12 months	-	86
Total current provisions for employee benefits	4,465	4,444
Non-current provisions		
Employee benefits	349	377
On-costs	55	59
Total non-current provisions for employee benefits	404	436
Total provisions for employee benefits	4,869	4,880

Reconciliation of movement in on-cost provision

	2018–19 \$'000
Opening balance	630
Additional provisions recognised	27
Closing balance	657
Current	602
Non-current	55
Total provisions for on-costs	657

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.

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	
	2018–19	2017–18	2018–19	2017–18
	\$'000	\$'000	\$'000	\$'000
Defined benefit plans⁽ⁱ⁾				
State Superannuation Fund—revised and new	62	69	-	-
Defined contribution plans				
VicSuper	1,092	1,216	22	-
Other employee nominated plans	629	648	13	-
Total⁽ⁱⁱ⁾	1,783	1,933	35	-

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

(ii) The total paid excludes accruals brought forward at 1 July 2018, and accruals carried forward at 30 June 2019, and therefore does not equal the totals in Note 3.1.1.

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

	2018–19	2017–18
	\$'000	\$'000
Training	628	572
Recruitment	269	245
Information technology	975	826
Outsourced internal audit fees	190	81
Motor vehicles	96	148
Travel	192	266
Other office expenses	746	965
Total other operating expenses	3,096	3,103

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 47 to 53 in the Report of Operations.

Departmental Outputs – Controlled income and expenses for the year ended 30 June 2019

	parliamentary reports		Financial statement audit and assurance reports		Total	
	2018–19 \$'000	2017–18 \$'000	2018–19 \$'000	2017–18 \$'000	2018–19 \$'000	2017–18 \$'000
Income from transactions						
parliamentary output appropriations	17,004	16,589	27,061	27,942	44,065	44,531
parliamentary special appropriations	288	244	289	325	577	569
Sale of services	72	59	79	84	151	143
Fair value of services received free of charge or for nominal consideration	19	14	19	19	38	33
Total income from transactions	17,383	16,906	27,448	28,370	44,831	45,276
Expenses from transactions						
Employee expenses	11,517	11,585	12,321	12,216	23,838	23,801
Contracted audit services provided by professional firms	1,290	743	11,535	11,804	12,825	12,547
Depreciation	408	396	396	443	804	839
Interest expense	10	7	7	7	17	14
Capital asset charge	191	169	185	190	376	359
Other operating expenses	2,609	2,654	2,601	2,936	5,210	5,590
Total expenses from transactions	16,025	15,554	27,045	27,596	43,070	43,150
Net result from transactions (net operating balance)	1,358	1,352	403	774	1,761	2,126
Other economic flows included in net result						
Net gain / (loss) on non-financial assets	1	(14)	2	(15)	3	(29)
Other gains / (losses) from other economic flows	(78)	(41)	(71)	(43)	(149)	(84)
Total other economic flows included in net result	(77)	(55)	(69)	(58)	(146)	(113)
Net result	1,281	1,297	334	716	1,615	2,013
Comprehensive result gain / (loss)	1,281	1,297	334	716	1,615	2,013

Controlled assets and liabilities as at 30 June 2019

	parliamentary reports		Financial statement audit and assurance reports		Total	
	2018–19	2017–18	2018–19	2017–18	2018–19	2017–18
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Assets						
Financial assets	7,678	7,199	12,930	12,756	20,608	19,955
Non-financial assets	2,101	2,153	3,538	3,815	5,639	5,968
Total assets	9,779	9,352	16,468	16,571	26,247	25,923
Liabilities						
Total liabilities	4,620	6,624	7,779	11,736	12,399	18,360
Net assets	5,159	2,728	8,689	4,835	13,848	7,563

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 2019

	2018–19	2017–18
	\$'000	\$'000
Administered income from transactions		
Reimbursement of audit costs charged	27,071	27,942
Total administered income from transactions	27,071	27,942
Administered expenses from transactions		
Payments into the Consolidated Fund	27,071	27,942
Total administered expenses from transactions	27,071	27,942
Total administered net result from transactions (net operating balance)	-	-
Total administered comprehensive result	-	-
Administered financial assets		
Receivables ⁽ⁱ⁾	5,425	4,635
Total administered financial assets	5,425	4,635
Administered non-financial assets		
Work in progress	2,726	2,133
Total administered non-financial assets	2,726	2,133
Total administered assets	8,151	6,768
Administered liabilities		
Amounts owing to the state	8,151	6,768
Total administered liabilities	8,151	6,768
Total administered net assets	-	-

(i) Receivables comprise debtors falling due as follows:

	2018–19	2017–18
	\$'000	\$'000
Current	5,009	4,141
Overdue between 30 to 60 days	280	181
Overdue beyond 61 to 90 days	120	231
Overdue beyond 90 days	16	82
	5,425	4,635

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

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, in accordance with FRD 109A *Intangible Assets*, 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 current 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 103H, 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 Property, plant and equipment and intangible assets

Classification by nature

	Gross carrying amount		Accumulated depreciation		Net carrying amount	
	2018–19	2017–18	2018–19	2017–18	2018–19	2017–18
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Leasehold improvements	6,011	6,011	(1,894)	(1,373)	4,117	4,638
Furniture and fittings	113	113	(108)	(107)	5	6
Computer software	286	286	(279)	(273)	7	13
Computer hardware	2,175	2,155	(1,906)	(1,748)	269	407
Office equipment	345	345	(262)	(229)	83	116
Motor vehicles—leased	231	193	(56)	(38)	175	155
Intangible assets	2,213	1,824	(1,805)	(1,756)	408	68
Total property, plant and equipment and intangible assets	11,374	10,927	(6,310)	(5,524)	5,064	5,403

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	2-5
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

The recoverable amount of primarily non-cash-generating assets, which are typically specialised in nature and held for continuing use of their service capacity, is expected to be materially the same as fair value determined under AASB 13 *Fair Value Measurement*, with the consequence that AASB 136 does not apply to such assets that are regularly revalued.

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	Motor vehicles – leased \$'000	Intangible assets \$'000	Total \$'000
Balance at 1 July 2017	5,097	7	-	270	137	295	120	5,926
Additions	61	-	19	303	21	73	16	493
Disposals	-	-	-	-	-	(177)	-	(177)
Depreciation ⁽ⁱ⁾	(520)	(1)	(6)	(166)	(42)	(36)	(68)	(839)
Balance at 30 June 2018	4,638	6	13	407	116	155	68	5,403
Additions	-	-	-	20	-	72	389	481
Disposals	-	-	-	-	-	(16)	-	(16)
Depreciation ⁽ⁱ⁾	(521)	(1)	(6)	(158)	(33)	(36)	(49)	(804)
Balance at 30 June 2019	4,117	5	7	269	83	175	408	5,064

(i) The depreciation charge in the comprehensive operating statement is equal to the movement shown in this note.

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 2018.

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	
	2018–19	2017–18
	\$'000	\$'000
Balance at 1 July 2018	5,335	5,806
Additions	92	477
Disposals	(16)	(177)
Depreciation	(755)	(771)
Balance at 30 June 2019	4,656	5,335

Description of significant unobservable inputs to Level 3 valuations

<i>2018–19 and 2017–18</i>	<i>Valuation technique</i>	<i>Significant unobservable inputs</i>
Leasehold improvements	Current replacement cost	Current replacement cost per unit
		Useful life of leasehold improvements
Other property, plant and equipment	Current replacement cost	Current 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

	2018–19	2017–18
	\$'000	\$'000
Contractual		
Other receivables	-	1
Statutory		
Amounts owing from Victorian Government ⁽ⁱ⁾	20,607	19,953
Total receivables	20,607	19,954
<i>Represented by</i>		
Current receivables	7,646	13,332
Non-current receivables	12,961	6,622
Total receivables	20,607	19,954

- (i) The total amount recognised as owing from the Victorian Government was \$20,607,000 (2017–18: \$19,953,000) of which \$7,646,000 (2017–18: \$13,332,000) 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
2018–19						
Other receivables	-	-	-	-	-	-
Total	-	-	-	-	-	-
2017–18						
Other receivables	1	1	-	-	-	-
Total	1	1	-	-	-	-

(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

	2018–19 \$'000	2017–18 \$'000
Current other non-financial assets		
Prepaid software and hardware maintenance contracts	184	284
Prepaid rental expense—accommodation	185	176
Other prepayments	111	71
Accrued income—recovery of expenses	37	10
Total current other non-financial assets	517	541
Non-current other non-financial assets		
Prepaid software and hardware maintenance contracts	58	24
Total non-current other non-financial assets	58	24
Total other non-financial assets	575	565

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

	2018–19 \$'000	2017–18 \$'000
Contractual		
Supplies and services ⁽ⁱ⁾	1,939	2,962
Amounts payable to government and agencies ⁽ⁱⁱ⁾	40	4,750
Lease incentive ⁽ⁱⁱⁱ⁾	3,700	4,167
Other payables ^(iv)	428	441
Statutory		
PAYG payable	18	-
FBT payable	14	17
GST payable	122	123
Payroll tax payable	71	86
Total payables	6,332	12,546
<i>Represented by</i>		
Current payables	3,099	8,846
Non-current payables	3,233	3,700
Total payables	6,332	12,546

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

(ii) Amounts payable to government and agencies in 2017–18 is principally comprised of a public account advance under section 37 FMA of \$4.67 million which has been repaid in the current year. 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 comprise general salary accruals.

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

	2018–19 \$'000	2017–18 \$'000
Non-current provisions		
Lease contracts	547	316
Make-good provision	475	463
Total non-current provisions	1,022	779
Total non-employee related provisions	1,022	779

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 2018	316	463	779
Additional provisions recognised	231	12	243
Closing balance at 30 June 2019	547	475	1,022

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 finance lease liabilities 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	
	2018–19	2017–18	2018–19	2017–18
	\$'000	\$'000	\$'000	\$'000
Finance lease liabilities payable⁽ⁱ⁾⁽ⁱⁱ⁾				
Not longer than one year	87	45	87	45
Longer than 1 year and not longer than 5 years	96	118	89	110
Minimum future lease payments	183	163	176	155
Less future finance charges	(7)	(8)	-	-
Present value of minimum lease payments	176	155	176	155
Included in the financial statements as:				
Current finance lease liabilities			82	41
Non-current finance lease liabilities			94	114
Total			176	155

(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.

	2018–19 \$'000	2017–18 \$'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

	2018–19 \$'000	2017–18 \$'000
Net result for the period	1,615	2,013
Non-cash movements		
(Gain) / loss on disposal of non-current assets	(3)	29
Depreciation of non-current assets	804	839
Movements in assets and liabilities		
(Increase) / decrease in receivables	(653)	5,665
(Increase) / decrease in prepayments	(11)	(28)
Increase / (decrease) in payables	(6,214)	(7,014)
Increase / (decrease) in provisions	232	(1,016)
Net cash flows from / (used in) operating activities	(4,230)	488

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

	2018–19 \$'000	2017–18 \$'000
Operating lease commitments payable⁽ⁱ⁾		
Less than 1 year	2,468	2,354
Longer than 1 year but not longer than 5 years	11,169	10,657
5 years or more	9,670	12,731
Total operating lease commitments payable	23,307	25,742
Contract audit service commitments payable⁽ⁱⁱ⁾		
Less than 1 year	8,164	6,853
Longer than 1 year but not longer than 5 years	5,927	2,533
5 years or more	-	-
Total contract audit service commitments payable	14,091	9,386
Total commitments (inclusive of GST)	37,398	35,128
Less GST recoverable from the Australian Taxation Office	(3,400)	(3,193)
Total commitments (exclusive of GST)	33,998	31,935

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

(ii) Contract audit service commitments relate to fees payable to professional firms for the conduct of financial statement audits on behalf of VAGO. Contracts with these firms have terms of 3 years, with options to extend for a further 2 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*.

From 1 July 2018, VAGO applies AASB 9 and classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms.

Categories of financial assets under AASB 9

Financial assets at amortised cost

Financial assets are measured at amortised costs if both of the following criteria are met and the assets are not designated as fair value through net result:

- the assets are held by VAGO to collect the contractual cash flows, and
- the assets' contractual terms give rise to cash flows that are solely payments of principal and interests.

These assets are initially recognised at fair value plus any directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method less any impairment.

VAGO recognises the following assets in this category:

- cash
- receivables (excluding statutory receivables).

Categories of financial assets previously under AASB 139

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).

Categories of financial liabilities under AASB 9 and previously under AASB 139

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.

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

	2018–19 \$'000	2017–18 \$'000
Contractual financial assets—receivables and cash		
Cash	1	1
Receivables⁽ⁱ⁾		
Lease incentive and other receivables	-	1
Total contractual financial assets	1	2
Contractual financial liabilities at amortised cost		
Payables⁽ⁱ⁾		
Supplies and services	1,939	2,962
Amounts payable to government and agencies	40	4,750
Lease incentive	3,700	4,167
Other payables	428	441
Borrowings		
Finance lease liabilities	176	155
Total contractual financial liabilities	6,283	12,475

(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 relate 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
2018–19							
Payables⁽ⁱⁱ⁾							
Supplies and services	1,939	1,939	1,770	141	28	-	-
Amounts payable to government and agencies	40	40	40	-	-	-	-
Lease incentive	3,700	3,700	39	78	351	1,869	1,363
Other payables	428	428	428	-	-	-	-
Borrowings							
Finance lease liabilities	176	183	3	7	76	97	-
	6,283	6,290	2,280	226	455	1,966	1,363
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

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

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

Interest rate exposure of financial instruments

With the exception of finance lease liabilities, all of VAGO's financial instruments are non-interest bearing. The carrying value and weighted average fixed interest rate exposure of finance lease liabilities in 2018–19 was \$176,000 at 3.25% (2017–18: \$155,000 at 3.52%).

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 Ministerial Directions issued by the Assistant Treasurer 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:

	2018–19	2017–18
	No.	No.
\$530,000–\$539,999 (substantive)	1	-
\$520,000–\$529,999 (substantive)	-	1
\$20,00–\$29,999 (acting)	1	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.

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	
	2018–19	2017–18
	\$'000	\$'000
Short-term employee benefits	4,269	4,116
Post-employment benefits	385	421
Other long-term benefits	103	97
Termination benefits	-	(43)
Total remuneration	4,757	4,591
Total number of executives⁽ⁱ⁾	28	32
Total annualised employee equivalents⁽ⁱⁱ⁾	23.2	22.4

(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 \$44.6 million (2017–18: \$45.1 million) and \$27.1 million (2017–18: \$27.9 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	1,280
Other government related parties ⁽ⁱ⁾	25,781
Total significant transactions with government-related entities	27,061

(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
- Renee Cassidy, Assistant Auditor-General, Performance Audit
- Susan Fraser, Assistant Auditor-General, Technical Audit Services (ceased 23 November 2018)
- Bill Gilhooly, Assistant Auditor-General, Financial Audit

Compensation of KMPs

	VAGO⁽ⁱ⁾	
	2018–19	2017–18
	\$'000	\$'000
Short-term employee benefits	1,455	1,673
Post-employment benefits	90	155
Other long-term benefits	12	89
Termination benefits	-	43
Total⁽ⁱⁱ⁾	1,557	1,960

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

(ii) 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

	2018–19	2017–18
	\$'000	\$'000
Nexia Melbourne Audit Pty Ltd		
Audit of the financial statements	35	33
Review of the performance statement	3	-
Total	38	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.

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. Additions to net assets that have been designated as contributions by owners are recognised as contributed capital.

9.7 Australian Accounting Standards issued that are not yet effective

The following AASs become effective for reporting periods commencing after 1 July 2019:

- AASB 16 *Leases*; and
- AASB 15 *Revenue from Contracts with Customers*.

Leases

AASB 16 *Leases* replaces AASB 117 *Leases*, AASB Interpretation 4 *Determining whether an Arrangement contains a Lease*, AASB Interpretation 115 *Operating Leases-Incentives* and AASB Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases on the balance sheet by recording a Right-of-Use (RoU) asset and a lease liability, except for leases that are shorter than 12 months and leases where the underlying asset is of low value (deemed to be below \$10,000).

AASB 16 also requires the lessees to separately recognise the interest expense on the lease liability and the depreciation expense on the RoU asset, and remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The amount of the remeasurement of the lease liability will generally be recognised as an adjustment to the RoU asset.

The effective date is for annual reporting periods beginning on or after 1 January 2019. VAGO intends to adopt AASB 16 in 2019-20 financial year when it becomes effective.

Various practical expedients are available on adoption to account for leases previously classified by a lessee as operating leases under AASB 117. VAGO will apply the standard using a modified retrospective approach with the cumulative effect of initial application recognised as an adjustment to the opening balance of accumulated surplus at 1 July 2019, with no restatement of comparative information.

VAGO has performed a detailed impact assessment of AASB 16 and the potential impact in the initial year of application has been estimated as follows:

- increase in RoU (\$10,380,000),
- increase in related depreciation (\$1,311,000),
- increase in lease liability (\$10,380,000),
- increase in related interest (\$400,000) calculated using effective interest method,
- decrease in rental expense (\$1,415,000),
- decrease in provisions (\$1,022,000),
- increase in equity (\$1,022,000), and
- increase in appropriation (\$283,000).

Revenue and Income

AASB 15 supersedes AASB 118 *Revenue* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers.

AASB 15 establishes a five-step model to account for revenue arising from an enforceable contract that imposes a sufficiently specific performance obligation on an entity to transfer goods or services. AASB 15 requires entities to only recognise revenue upon the fulfilment of the performance obligation. Therefore, entities need to allocate the transaction price to each performance obligation in a contract and recognise the revenue only when the related obligation is satisfied.

AASB 15 and the related guidance will come into effect for annual reporting periods beginning on or after 1 January 2019. VAGO intends to adopt this standard in 2019-20 financial year when it becomes effective.

VAGO will apply the standard using a modified retrospective approach with the cumulative effect of initial application recognised as an adjustment to the opening balance of accumulated surplus at 1 July 2019, with no restatement of comparative information.

VAGO has performed an impact assessment of AASB 15, and has estimated that the potential impact for each major class of revenue and income in the initial year of application is not material because both our audit cycle and client base are stable from one year to the next.

The table below outlines the accounting pronouncement that has been issued but not effective for 2018–19, which may result in potential impacts on VAGO reporting for future reporting periods.

Topic	Key requirements	Effective date	Likely impact on initial application
AASB 2018-7 <i>Amendments to Australian Accounting Standards – Definition of Material</i>	This Standard principally amends AASB 101 <i>Presentation of Financial Statements</i> and AASB 108 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> . The amendments refine and clarify the definition of material in AASB 101 and its application by improving the wording and aligning the definition across AASB Standards and other publications. The amendments also include some supporting requirements in AASB 101 in the definition to give it more prominence and clarify the explanation accompanying the definition of material.	1 Jan 2020	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.

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 2019							
Gender							
Women	85	79.1	65	17	76.3	3	2.8
Men	76	76.0	73	–	73.0	3	3.0
Age							
15–24	9	9.0	9	–	9.0	–	–
25–34	58	57.8	55	1	55.8	2	2.0
35–44	60	55.7	46	12	53.9	2	1.8
45–54	27	25.6	21	4	23.6	2	2.0
55–64	6	6.0	6	–	6.0	–	–
Over 64	1	1.0	1	–	1.0	–	–
Classification							
VPS 2	11	11.0	11	–	11.0	–	–
VPS 3	30	29.6	28	1	28.6	1	1.0
VPS 4	27	25.9	22	3	23.9	2	2.0
VPS 5	39	37.0	31	6	35.2	2	1.8
VPS 6	30	28.0	23	6	27.0	1	1.0
Senior Technical Specialists	2	2.0	2	–	2.0	–	–
Executives	21	20.6	20	1	20.6	–	–
Auditor-General	1	1.0	1	–	1.0	–	–
Total employees	161	155.1	138	17	149.3	6	5.8
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

Appendix B

Workplace health and safety

VAGO's commitment to workplace health and safety (WHS) continued in the 2018–19 financial year. We strengthened and embedded our appropriate behaviour resources, including development and delivery of VAGO-specific resources and bespoke face-to-face appropriate behaviour training that is mandatory for all employees.

In 2018–19, there were 17 WHS incidents reported—three more than in 2017–18. The incident rate per 100 full-time equivalent (FTE) staff in 2018–19 was 10.95.

There was one standard WorkCover claim lodged in 2018–19, as shown in Figure B1.

Figure B1
WorkCover claims

Claims and rate	2015–16	2016–17	2017–18	2018–19
Number of standard claims ^(a)	2	1	2	1
Rate per 100 full-time equivalent	1.20	0.53	1.12	0.64

(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 2019.

Source: Data supplied by the Victorian WorkCover Authority (VWA).

In 2018–19, there were no lost-time claims, as shown in Figure B2.

Figure B2
Lost time and average cost of claims

Lost time and cost	2015–16	2016–17	2017–18	2018–19
Number of lost-time claims ^(a)	2	0	1	0
Average cost of claims ^(b)	\$211 807	\$725	\$20 421	\$10 377

(a) A lost-time claim is one with one or more days compensated by VWA (after employer excess) as at 30 June 2019. They are a subset of standardised claims.

(b) Based on claims reported between 1 July 2018 and 30 June 2019. 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 VWA.

During 2018–19, the Health and Safety Committee:

- 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 in Figure B3.

Figure B3

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 2018–19, which meets the requirements of the <i>Occupational Health and Safety Act 2004</i> .

Appendix C

General executive information

In 2018–19, 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, is provided in Figures C1 and C2.

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

Income band (salary)	Executives	Senior Technical Specialists
\$160 000–\$179 999	16 ^(a)	1
\$180 000–\$199 999	2	–
\$200 000–\$219 999	–	1
\$240 000–\$259 999	2 ^(b)	–
\$340 000–\$359 999	1	–
Total	21	2

Note: The salaries reported above are for the full financial year, at a one full-time equivalent rate, and exclude 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 and a 0.9 full-time equivalent rate respectively.

(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 30 June 2019

Classification	Total (ongoing)		Vacancies	Male		Female	
	No.	Var. ^(a)		No.	Var.	No.	Var.
EO1	1	0	0	1	0	0	0
EO2	2	–1	0	1	0	1	–1
EO3	18	–4	0	11	–4	7	0
Total	21	–5	0	13	–4	8	–1

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

(a) 'Var.' refers to variance in the numbers reported for June 2018.

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 executive officers (EO) 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. These two disclosures are reconciled in Figure C3.

Figure C3
Reconciliation of executive numbers, June 2019 and June 2018

Remuneration and vacancies	2019	2018
Executives (Financial Statement Note 9.2)	28	32
Accountable Officer ^(a)	1	1
Less: Separations	-7	-6
Total executive numbers as at June 30	22	27

(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 2019

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. All members have appropriate financial and industry expertise and an appropriate understanding of the operation of VAGO.

Lynne O'Brien has been Chair of the Audit and Risk Committee since 1 January 2019. The members of the Audit and Risk Committee for the year ended 30 June 2019 and their attendance at meetings are set out below.

Committee member	Meetings attended	Meetings held
Lynne O'Brien	4	4
Julie Fahey (term commenced 1 January 2019)	2	2
Peter Niblett	4	4
Sara Watts (term ended 31 December 2018)	2	2
Joydeep Hor (term ended 31 December 2018)	2	2

The responsibilities of the committee are defined in its charter, which is approved by the Auditor-General and delivers on the responsibilities set out in the Standing Directions under the *Financial Management Act 1994*.

The main responsibilities of the committee are to:

- review and report independently on the financial statements and all other financial information published by VAGO
- assist in reviewing the effectiveness of VAGO's internal control environment covering:
 - effectiveness and efficiency of operations
 - reliability of financial reporting, and
 - compliance with applicable laws and regulations
- determine the scope of the internal audit function and ensure its resources are adequate and used effectively, including coordination with the external auditors
- maintain effective communication with external auditors
- consider recommendations made by internal and external auditors and review the implementation of actions to resolve issues raised
- oversee the effective operation of the risk management framework.

In fulfilling its responsibilities, the Audit and Risk Committee has received operational management reports, risk management reports and briefings from the Auditor-General on 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 2018, which identified no significant issues
- status updates and 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 register
- systems of control for gifts, benefits and hospitality, and
- policies and procedures in place for the development of VAGO's annual plan and budget and resource planning.

At the time of signing this report, the annual financial report for the year ended 30 June 2019 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 internal audit function was provided by PricewaterhouseCoopers in 2018–19.



Lynne O'Brien (Chair)
16 August 2019

Risk management

Our risk management framework is developed in line with the Victorian Government Risk Management Framework, the Standing Directions 2018 under the *Financial Management Act 1994*, and the Australian/New Zealand Risk Management Standard (AS/NZS ISO 31000:2018).

We maintain effective risk governance through appropriate internal management structure and oversight arrangements. Each enterprise risk is assigned to a member of the Strategic Management Group who is responsible for ensuring the risk is effectively managed. The enterprise risk register is also considered by our Audit and Risk Committee at each of its meetings.

During 2018–19, we:

- finalised our risk management framework, including creating a formal risk appetite statement and updating our risk management policy and procedure
- reassessed our enterprise risks in line with our *Strategic Plan 2017–2021* and changes to our legislative and regulatory obligations
- worked more closely with our audit and corporate services areas to help them better understand their risk environment and embed a strong risk culture
- continued to undertake an in-depth monthly focus on risks, both current and emerging.

VAGO's enterprise risks remain unchanged from last year.

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

Victorian Auditor-General's Office Financial Management Compliance Attestation Statement

I, Andrew Greaves, certify that the Victorian Auditor-General's Office has complied with the applicable Standing Directions 2018 under the *Financial Management Act 1994* and Instructions.



Andrew Greaves
Auditor-General
Victorian Auditor-General's Office

29 August 2019

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 2018–19:

- fraud and corruption controls
- IT security
- financial audit delivery model
- financial audit quality management
- payroll.

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, 2017–18 and 2018–19

Indicator	2018–19	2017–18
Energy Use		
Total energy usage segmented by primary source (MJ)	897 361	880 274
Electricity (MJ)—excluding Green Power	649 132	634 234
Natural gas (MJ)	248 228	239 294
Green power (MJ) ^(a)	—	6 746
Total greenhouse gas emissions from energy consumption (tonnes CO ₂ e)	225	221
Electricity (tonnes CO ₂ e)—excluding Green Power	211	208
Natural gas (tonnes CO ₂ e)	14	13
Percentage of electricity purchased as Green Power	—	2%
Units of office energy used per FTE (MJ/FTE) ^(b)	5 793	4 934
Units of office energy used per office area (MJ/m ²)	345	339
Waste and recycling		
Total units of waste disposed of by destination (kg/year)	5 051	6 163
Landfill (kg) ^(c)	2 670	1 572
Comingled recycling (kg) ^(c)	838	3 497
Secure documents (kg)	961	502
Organics (kg)	583	592
Total units of waste disposed of per FTE by destination (kg/FTE)	33	35
Landfill (kg/FTE) ^(c)	17	9
Comingled recycling (kg/FTE) ^(c)	5	20
Secure documents (kg/FTE)	6	3
Organics (kg/FTE)	4	3
Recycling rate (%) ^(c)	47%	66%
Greenhouse gas emissions associated with waste (tonnes CO ₂ e)	3	2.2
Paper use		
Total units of A4 equivalent copy paper used (reams)	571.1	678.0
Units of A4 equivalent copy paper used per FTE (reams/FTE)	3.7	4.0
75–100% recycled content	51%	89%
0–49% recycled content	49%	11%

Figure E1

VAGO's environmental performance, 2017–18 and 2018–19—continued

Indicator	2018–19	2017–18
Water consumption		
Total water consumption (kilolitres)	1 567	2 392
Units of office water used per FTE (kilolitres/FTE) ^(d)	10	13
Units of office water used per office area (kilolitres/m ²)	1	1
Travel and transport		
Total energy consumption by vehicle fleet (MJ) ^(e)	767 277	971 058
Total distance travelled by vehicle fleet (km)	218 808	250 655
Total greenhouse gas emissions from vehicle fleet (tonnes CO ₂ -e)	55	69
Greenhouse gas emissions from vehicle fleet per 1000km (tonnes CO ₂ -e)	0.5	0.6
Total distance travelled by air (km) ^(f)	63 854	131 207
Greenhouse gas emissions		
Total greenhouse gas emissions associated with energy use (tonnes CO ₂ -e)	225	221
Total greenhouse gas emissions associated with vehicle fleet (tonnes CO ₂ -e)	55	69
Total greenhouse gas emissions associated with air travel (tonnes CO ₂ -e)	12	40
Total greenhouse gas emissions associated with waste disposal (tonnes CO ₂ -e)	3.2	2.2

(a) Not using green energy.

(b) Difference due to our lower FTE at the end of the reporting period.

(c) Our waste audit was limited to one day which had less recycling.

(d) We have restated our prior year result as our FTE was incorrectly recorded.

(e) Less distance was travelled in the current year.

(f) Fewer flights were taken in the current year.

Appendix F

Policies and compliance

Delegations

Under section 75(2)(c) of the *Audit Act 1994* we have to report the names of any persons to whom the Auditor-General delegated the power to express a written audit opinion under section 8. In 2018–19, the Auditor-General delegated this power to the following financial audit directors:

- Simone Bohan
- Travis Derricott
- Charlotte Jeffries
- Jonathan Kyvelidis
- Tim Loughnan
- Ron Mak
- Paul Martin
- Tim Maxfield.

Building Act

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

Government advertising expenditure

VAGO has no advertising expenditure to report.

Major contracts

VAGO has no major contracts to report.

Local Jobs First—Victorian Industry Participation Policy

During 2018–19, VAGO did not undertake any procurement activity that was subject to the Local Jobs First 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 2018–19, VAGO had nothing to report to the Victorian Inspectorate as per requirements under the *Audit Act 1994*, and the Inspectorate did not review any of VAGO's activities. We have previously provided 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 these arrangements.

VAGO operates under the Victorian Public Service Enterprise Agreement in providing leave for carers, as defined in the *Carers Recognition Act 2012*.

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 2019, we received three requests for information, all of which were for audit evidence that we cannot provide.

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	In writing Freedom of Information Victorian Auditor-General’s Office Level 31, 35 Collins Street Melbourne 3000
By phone 03 8601 7000	

Appendix G

Additional information available on request

This report and our website publish all information required by the Standing Directions 2018 under the *Financial Management Act 1994*.

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 F.

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	19, 34, 39
FRD 22H	Nature and range of services provided	9
	<i>Management and structure</i>	
FRD 22H	Organisational structure	34
	<i>Financial and other information</i>	
FRD 8D	Performance against output performance measures	48
FRD 8D	Budget portfolio outcomes	61
FRD 10A	Disclosure index	121
FRD 15E	Executive officer disclosures	107
FRD 22H	Employment and conduct principles	116
FRD 22H	Workplace health and safety policy	105
FRD 22H	Summary of the financial results for the year	53
FRD 22H	Significant changes in financial position during the year	56
FRD 22H	Major changes or factors affecting performance	19, 34, 39
FRD 22H	Application and operation of <i>Freedom of Information Act 1982</i>	116
FRD 22H	Compliance with building and maintenance provisions of the <i>Building Act 1993</i>	115
FRD 22H	Statement on National Competition Policy	115
FRD 22H	Application and operation of the <i>Protected Disclosure Act 2012</i>	116
FRD 22H	Application and operation of the <i>Carers Recognition Act 2012</i>	116
FRD 22H	Details of consultancies over \$10 000	57
FRD 22H	Details of consultancies under \$10 000	57
FRD 22H	Disclosure of ICT expenditure	60
FRD 22H	Statement of availability of other information	119
FRD 24D	Reporting of office-based environmental impacts	113
FRD 25D	Victorian Industry Participation Policy disclosures	115
FRD 29C	Workforce data disclosures	103
SD 5.2	Specific requirements under Standing Direction 5.2	1–52

Legislation	Requirement	Page
Compliance attestation and declaration		
SD 5.1.4	Attestation for compliance with Ministerial Standing Direction	112
SD 5.2.3	Declaration in report of operations	3
Financial report		
<i>Declaration</i>		
SD 5.2.2	Declaration in financial statements	63
<i>Other requirements under Standing Directions 5.2.2</i>		
SD 5.2.1(a)	Compliance with Australian Accounting Standards and other authoritative pronouncements	70
SD 5.2.1(a)	Compliance with Standing Directions	63
<i>Other disclosures as required by FRDs in notes to the financial statements</i>		
FRD 9B	Disclosure of administered assets and liabilities	78
FRD 13	Disclosure of parliamentary appropriations	71
FRD 21C	Disclosures of responsible persons, executive officers and other personnel (contractors with significant management responsibilities) in the financial report	95
FRD 103H	Non-current physical assets	80
FRD 110A	Cash flow statements	68
FRD 112D	Defined benefit superannuation obligations	75
FRD 114C	Financial instruments—general government entities and public non-financial corporations	89
<i>FRDs applicable to VAGO with no disclosures to make in 2018–19</i>		
FRD 11A	Disclosure of ex gratia expenses	—
FRD 12B	Disclosure of major contracts	—
FRD 22H	Subsequent events	—
SD 5.2.1(b)	Compliance with Model Financial 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 have printed only 25 copies of this report; it is primarily an online document.