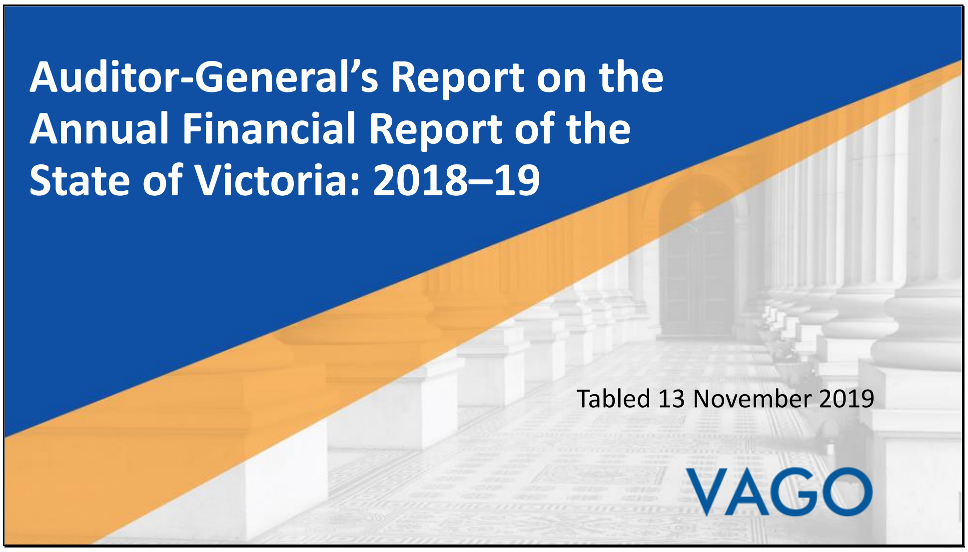
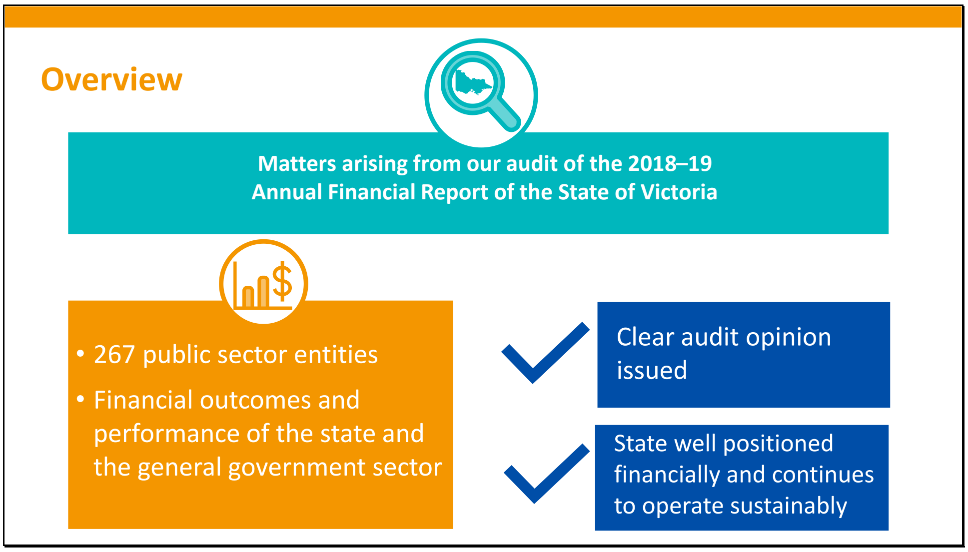
Slide 1



This presentation provides an overview of the *Auditor-General's Report on the State of Victoria's Annual Financial Report for 2018–19,* or the AFR.

Slide 2



The report provides Parliament with information about matters arising from our financial audit of the 2018-19 AFR, and our assessment of the financial sustainability of the state at 30 June 2019.

We issued clear audit opinions this year on the financial statements of the state and the general government sector. We concluded that the state continues to operate sustainably and remains financially well positioned.

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Twenty-nine state-controlled entities make up the majority of total state revenue, expenses, assets and liabilities. We focus our attention on these entities when forming an opinion on the AFR. In 2018–19, we issued clear audit opinions on the financial statements of all 29 entities.

We found internal control environments were generally strong at the 29 entities. However, we continue to identify IT deficiencies, particularly in the areas of access management and IT security.

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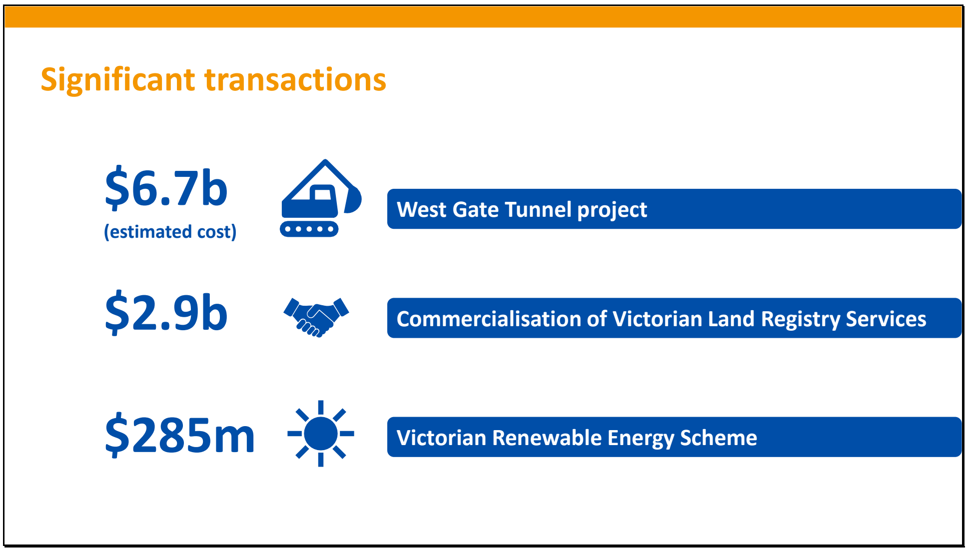

In our report we have comment on three significant transactions we reviewed in 2018–19 to ensure they were appropriately accounted for and disclosed in the AFR.

The West Gate Tunnel project will cost an estimated $6.7 billion and is expected to be completed by 2022. The project is being funded through $2.7 billion in state contributions, extending Transurban tolling arrangements on CityLink, and providing Transurban tolling rights for the new WGT.

In 2018–19, the government commercialised part of its land titles and registry functions for an upfront payment of $2.9 billion. The upfront payment will be recognised as revenue evenly over a 40 year concession period.

In late 2018, the Department of Environment, Land, Water and Planning entered into 15-year energy support agreements with six renewable energy generators. The AFR reports the estimated payments to be received by the state from four agreements as an asset valued at $285 million at 30 June 2019.

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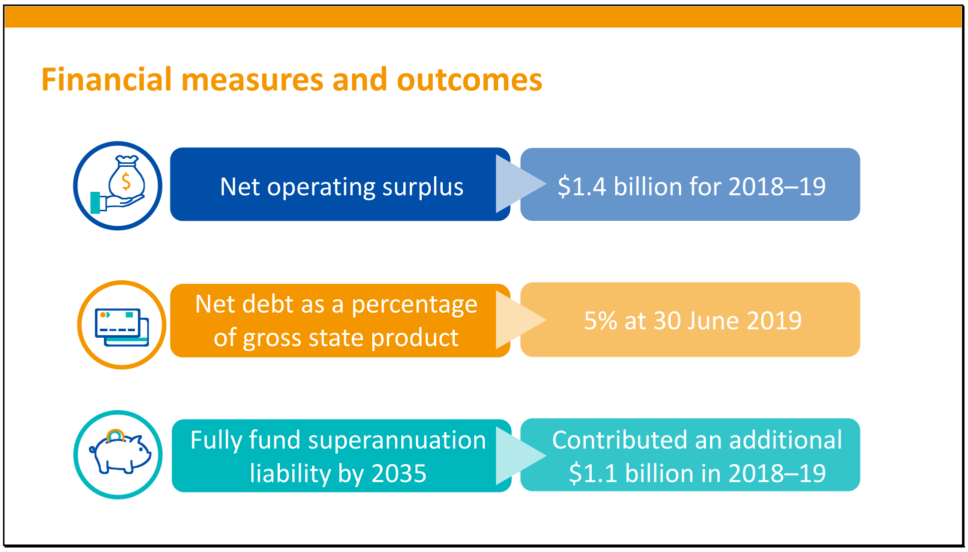
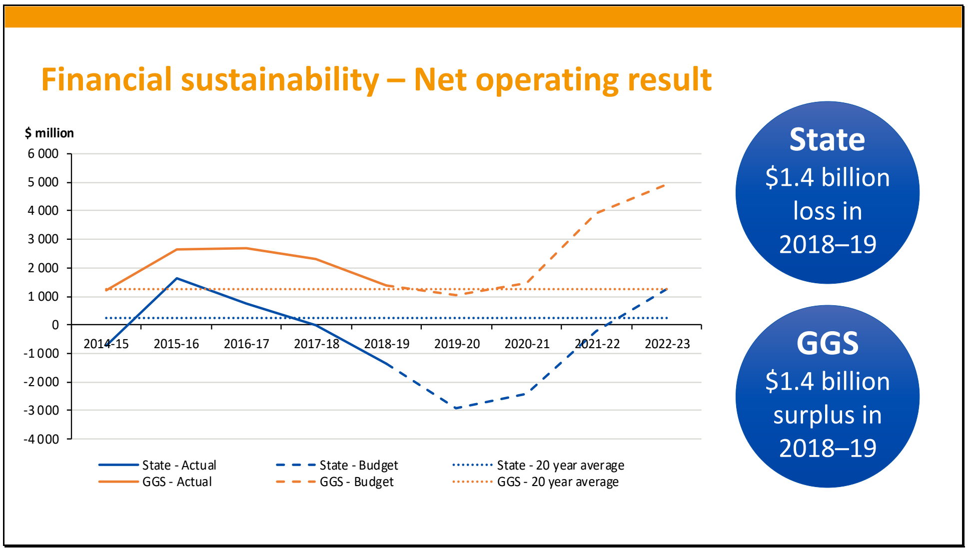


The state government monitors its financial sustainability against three key measures:

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

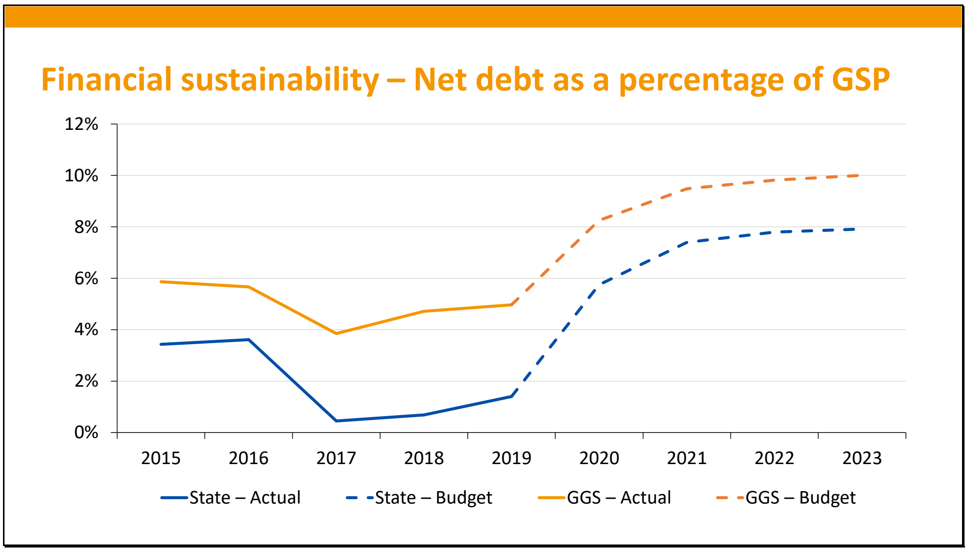
In 2018-19, the state achieved, or was on target to achieve, the targets set for each of these three key measures. Despite a declining position in 2018-19, the state continues to operate sustainably and remains financially well positioned.

Slide 6



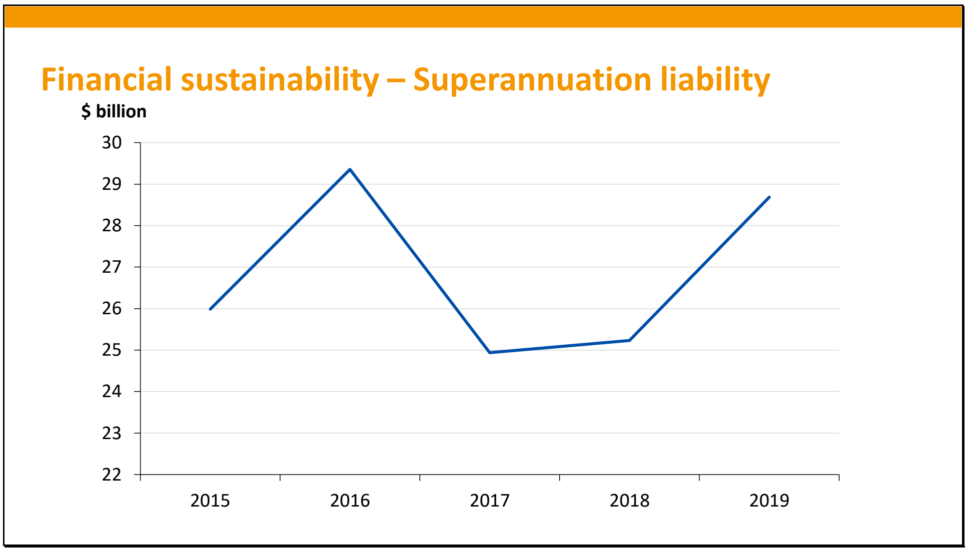
In 2018–19, the state made a loss from transactions of $1.4 billion, and the general government sector, or GGS, a surplus of $1.4 billion. Despite a poorer result this year compared to last, the state and the GGS, on average, have been generating a net surplus from transactions per year over the long term.

Slide 7



The government assesses how manageable the state's debt is by comparing net debt to the state's economy, indicated by gross state product, or GSP. This increase over the next 4 years is a result of net debt increasing at a faster rate than GSP. Borrowings are expected to increase by $29.7 billion or nearly 50 percent by 30 June 2023. The increased borrowings will be used to fund the states large infrastructure program, and take into account the impact of new accounting standards coming into effect for 2019-20. Despite a growing debt burden, the state’s debt remains serviceable.

Slide 8



The superannuation liability represents the gap between the future amounts the superannuation funds will be required to pay to their members, and the value of the assets held by the funds to meet these payments. Every year the state engages actuaries to provide it with a payment plan that will enable it to meet its target of fully funding the liability by 2035. The state has continually been meeting these payments.

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

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