

Annual Report

2019–20



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Annual Report 2019–20

VAGO

Victorian Auditor-General's Office

The Hon Nazih Elasmr MLC
President
Legislative Council
Parliament House
Melbourne

The Hon Colin Brooks MP
Speaker
Legislative Assembly
Parliament House
Melbourne

Dear Presiding Officers

Under the provisions of the *Audit Act 1994*, I transmit my *Annual Report 2019–20*.

Yours faithfully



Andrew Greaves
Auditor-General

14 October 2020

The Victorian Auditor-General's Office acknowledges Australian Aboriginal peoples as the traditional custodians of the land throughout Victoria. We pay our respect to all Aboriginal communities, their continuing culture and to Elders past, present and emerging.

Foreword

A year that began as any other ended in the extraordinary circumstances under which we continue to operate.

Our operations, like those of almost all agencies, have been variously affected by the ongoing COVID-19 emergency, with flow on effects to the delivery of our annual financial and performance audit programs. But most of the disruption we experienced emanated from the deeper disruption to the wider public sector, rather than from any internal constraints or self-imposed restrictions.

Against this background it was pleasing that our strategy over the past three years—investing in our staff, our audit methods, our service delivery models, and our information systems—enabled our business operations to continue almost seamlessly from the day the state of emergency was declared in Victoria. Indeed, we had anticipated it in the weeks leading up to the declaration, and most of our staff began working from home from that day and continue to do so.

To me this exemplifies our resilience as an organisation—resilience built on the two foundational pillars of our strategy: to Invest in our people and to Lead by example.

The emergency has served only to strengthen our commitment to, and our focus on, the health and wellbeing of our staff. It has created a greater sense of connectedness between all of us as we have all galvanised around our mission to deliver reliable and authoritative audit services that in turn lead to beneficial change.

Despite the challenges of remote working, our focus on employee wellbeing and organisational culture has remained our priority throughout the year. In May, we launched our *People Matter Action Plan* to further our commitment to building an open, constructive and collaborative workplace aligned with our staff-developed values.

As part of our *Diversity and Inclusion Plan*, we established our Reconciliation Action Plan (RAP) working group. We are proud to work alongside Aboriginal and Torres Strait Islander community members who will provide advice and support as we finalise our RAP, which we anticipate will be approved by Reconciliation Australia later this year.

We have continued also to invest in technology and to leverage this investment to refine and simplify our internal systems and processes, and to augment our audit service delivery models. This investment held us in good stead as we moved to remote auditing. It has also allowed us to maintain, if not strengthen collaboration and teamwork within VAGO.

Finally, it was pleasing to us all, that the four-yearly performance audit of our organisation by the Public Accounts and Estimates Committee (PAEC), tabled in August 2020, concluded that we are 'operating effectively, economically and efficiently and in compliance with all relevant legislation'. This independent opinion speaks more powerfully than our own assessments could, that the Office is an exemplar for the public sector.

Andrew Greaves
Auditor-General

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About this report

This report covers the activities of VAGO for the period 1 July 2019 to 30 June 2020. 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 \$60 000 to produce.

1.

About VAGO

VAGO plays a key role in assessing the performance of the public sector.

We conduct audits, reviews and investigations to ensure that public sector entities are transparent and accountable to the Victorian Parliament and the community.

This chapter provides information about our:

- Role
 - Governance
 - Operating model
 - Values
 - Strategic plan
 - Performance
 - Accountability
-

1.1 Our role

The Auditor-General is an independent officer of the Victorian Parliament who is appointed on behalf of Victorians to scrutinise how well the government spends public money. VAGO helps to hold the government accountable through our financial and performance audits, assurance reviews and investigations of public sector agencies and our resulting reports to Parliament.

We are part of Victoria's integrity system. 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.
- The *Audit Act 1994* (the Act) establishes VAGO and the Auditor-General's mandate. It provides the legal basis for our powers and identifies the responsibilities of our role.

We audit the financial reports of over 560 agencies each year and provide opinions on 110 performance statements. The agencies we audit include government departments, statutory bodies, educational institutions, public health services, water corporations, insurers and local government councils.

We conduct performance audits that assess the effectiveness, efficiency, economy and compliance of government agencies, programs and services. With our follow-the-dollar powers, we can audit non-government and for-profit organisations that provide government services under contract. We can also audit the use of government grants by recipients.

Our assurance reviews may focus on either financial issues or matters of performance. They are more limited in scope and examine targeted, time-sensitive issues that do not warrant a full performance audit. They provide a level of assurance which is limited, but still meaningful.

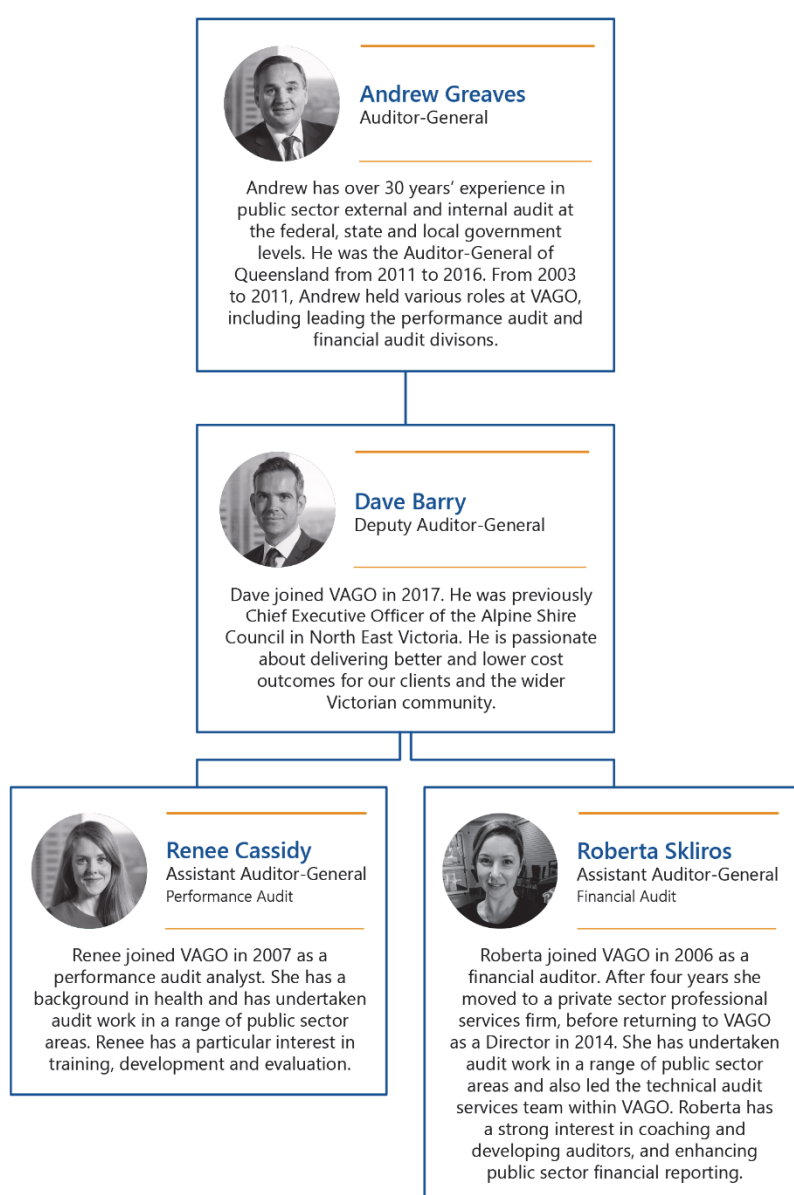
Our unique position and access to information across the Victorian public sector allows us to identify common issues and provide useful insights for parliamentarians, the public and the agencies we audit. We provide recommendations to audited agencies on how to improve services and function more efficiently and effectively.

1.2 Our governance arrangements

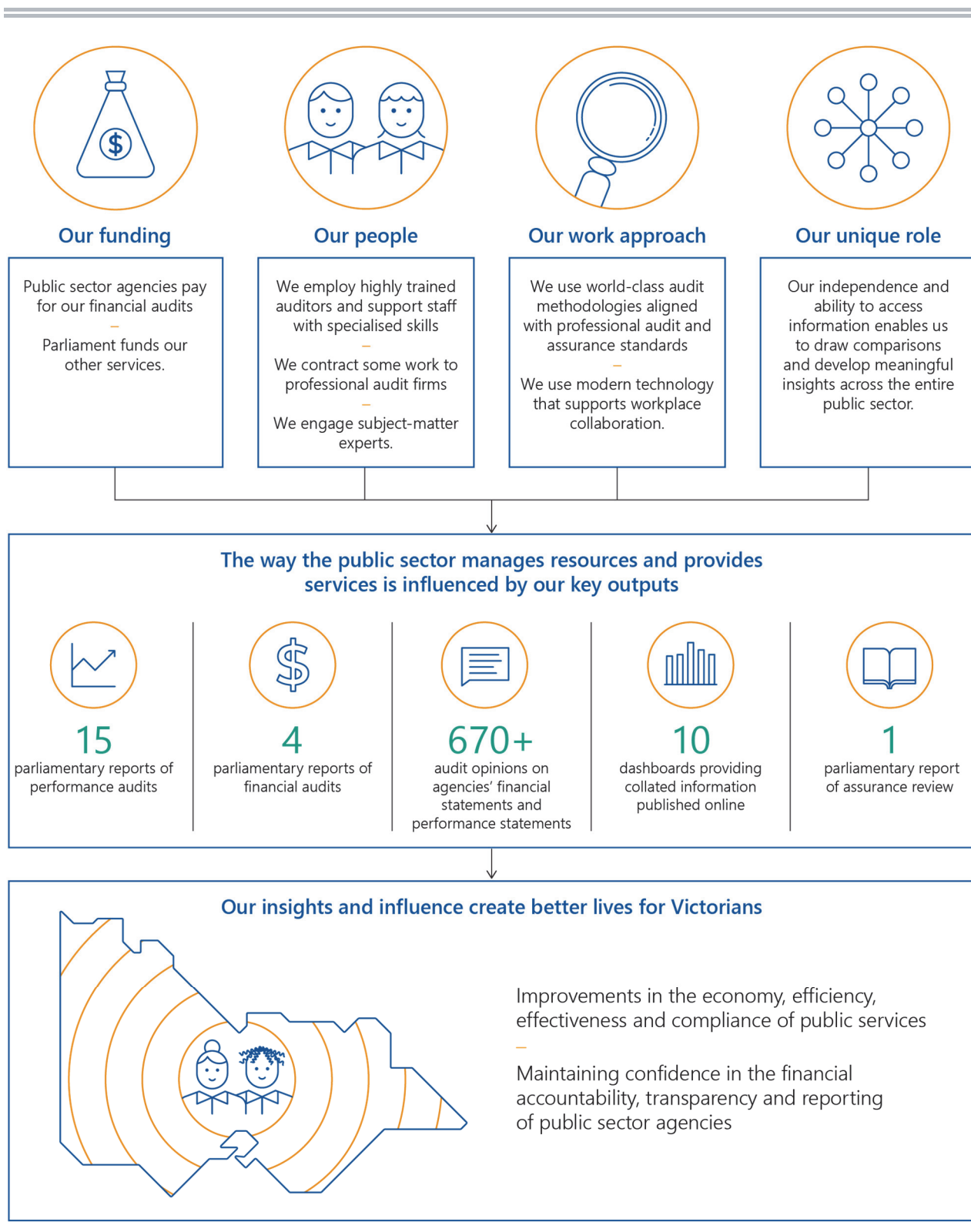
Our Strategic Management Group (SMG) governs VAGO's strategic direction and alignment to its vision, values and purpose. The SMG is collectively responsible for:

- setting and monitoring VAGO's strategy
- overseeing good governance and a positive organisational culture
- VAGO's performance from an outcomes and sustainability perspective
- ensuring that VAGO has strong executive leadership.

The membership of the SMG comprises the Auditor-General, Deputy Auditor-General, and the Assistant Auditors-General for performance and financial audit.



1.3 Our operating model



1.4 Our values

In May 2018, we introduced a new set of organisational values. These are:

- respect
- innovation
- collaboration
- accountability.

These values shape our work and culture. In 2019–20, we continued to express and embed these values through team-building exercises and volunteering opportunities. We also launched a new Employee Recognition Procedure to honour employees for their positive contributions.





To further our *2019–22 Diversity and Inclusion Plan*, we established a working group to champion the plan. Initiatives included an audit of our premises to identify barriers to accessibility, Aboriginal cultural awareness training, and the development of our Reconciliation Action Plan, which we will enact in 2020–21.

1.5 Our strategic plan

Our *Strategic Plan 2017–2021* sets out our objectives, our directions to achieve these objectives, and measures of what success looks like. This is our third year of operating with the plan. Our four strategic objectives are to:

- Increase our relevance
- Grow our influence
- Invest in our people
- Lead by example

We detail our progress against the plan throughout this report.

	Our objectives	Our directions
 <p>Increase our relevance</p>	<p>Be more relevant by delivering credible and authoritative reports and advice about things that matter and will make a difference</p>	<p>Modernise our auditing methods Update how we audit to reflect new and emerging technology-enabled practices.</p> <p>Explore our full mandate Rebalance our audit programs to evenly cover efficiency and effectiveness, governance and compliance.</p> <p>Take a longer-term perspective Analyse audit results through time to identify what works on complex and interconnecting issues.</p>
 <p>Grow our influence</p>	<p>Be valued for our independence and more influential because of the unique perspectives we provide</p>	<p>Strengthen our engagement Build more productive relationships based on mutual respect and understanding of our respective roles and organisational contexts.</p> <p>Better leverage our access Use our access to cross-government datasets to provide our clients with new insights they can use.</p> <p>Increase accessibility to our work Develop new interactive channels with our stakeholders and open up access.</p>
 <p>Invest in our people</p>	<p>Enable high performance by our people through a supportive culture, professional development and collaboration</p>	<p>Be clear about what we stand for Demonstrate leadership and accountability in how we work and live our values and culture.</p> <p>Invest in excellence Support our people to harness new and emerging technologies by developing their technical, analytical and people management capabilities.</p> <p>Get the mix right Ensure our workforce composition builds our capability to position us to meet future business needs.</p>
 <p>Lead by example</p>	<p>Model exemplary performance in everything we do</p>	<p>Simplify our business Eliminate unnecessary internal red tape, and streamline and increase automation of core business processes.</p> <p>Embrace new technology Invest in cloud technology, implement the best software solutions to integrate our business systems, and share information to improve our practice.</p> <p>Better intelligence to drive decisions Develop a comprehensive portfolio of service, product and project performance measures.</p>

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 2019–20, we delivered an audit program balanced across efficiency, effectiveness, economy and compliance.</p> <p>We used new techniques, such as data envelopment analysis and process mining software, to more thoroughly audit the efficiency of government agencies.</p> <p>We conducted our first assurance review, which found that, of agencies with outstanding audit recommendations, 95.7 per cent said that our audit had added value to their organisation or sector.</p>	<p>Our 2020–21 Annual Plan continued to focus on areas of public concern, with further audits planned on sexual harassment, cybersecurity and fraud and corruption. We also added performance audits on the government response to the COVID-19 pandemic.</p> <p>We released an in-house-built data analytics platform to support our audits of financial reports.</p>
<p>More of our performance audits originate from requests from Parliament, the public sector and the public.</p> <p>Use of our reports and associated datasets in government service delivery and for parliamentary purposes has increased.</p>	<p>We continued reviewing suggestions from parliamentarians and the public as part of our annual planning process.</p> <p>We have continued to engage remotely with our stakeholders during the COVID-19 pandemic, and provided remote briefings to parliamentarians.</p> <p>We found that 90 per cent of parliamentarians were satisfied with our service, with none dissatisfied.</p> <p>We expanded our range of data dashboards available to the public.</p>	<p>We joined a working group with representatives from government departments to consider alternatives to financial reporting and audit timelines, due to COVID-19.</p>
<p>Employee engagement has increased. We develop, attract, and retain the talent we need.</p>	<p>Our employee engagement score this year was 60, down from 65 last year. In response, we engaged an external organisation to facilitate a series of workshops with staff, and created a <i>People Matter Action Plan</i>.</p> <p>We established a diversity and inclusion working group to champion our <i>Diversity and Inclusion Plan</i>.</p> <p>We began procurement for a new Audit Service Providers panel to improve the quality and nature of services delivered.</p>	<p>We ran major training initiatives on appropriate behaviour, plain English and Aboriginal cultural awareness.</p> <p>We provided training programs on new accounting standards and our Engage, Plan, Implement and Conclude (EPIC) methodology in financial audit.</p> <p>Our VAGO Social Club has remained extremely active during the COVID-19 pandemic to keep staff motivated and connected.</p>
<p>Workforce productivity has increased. Our internal practices set the benchmark for public sector entities and other audit offices.</p>	<p>Our productivity—the percentage of staff hours charged to our output groups—was 61 per cent (60 per cent in 2017–18 and 60 per cent in 2018–19).</p> <p>We continued our network uplift project, further securing our cybersecurity network and maturing our use of Microsoft Teams.</p> <p>We introduced a unified support desk, providing one number to call for support inquiries across IT, HR, finance, facilities, business support and data analytics.</p>	<p>We established a Data Science team, with a focus on exploiting data and statistical analysis to support the performance audit program.</p> <p>We created a Publishing team, embedding a writing coach, editors and graphic designer with auditors to create stronger final reports.</p> <p>We updated our textual and visual style guide, and our audit videos.</p> <p>We delivered several initiatives across the organisation to support governance and improve compliance.</p>

1.6 Our performance

Every year, we report against the performance measures and targets that we agreed on with the Assistant Treasurer, which are set out in *Budget Paper No. 3*. We discuss our 2019–20 performance against these measures in the relevant sections in this report. An independently audited performance statement containing this information is also included in Chapter 6. While not required, this audited statement assures readers that our non-financial performance information is reliable, similar to the audit opinion on our financial statements provides assurance.

1.7 Our accountability

We are accountable to the Victorian Parliament and all Victorians for how efficiently and effectively we perform our auditing services and how economically we use public resources.

External audits

The Act requires an independent performance audit of our office be undertaken at least once every four years. The purpose of the audit is to determine whether the Auditor-General and VAGO are achieving their objectives effectively, economically and efficiently and in compliance with all relevant Acts.

The PAEC appointed Allen and Clark Consulting to conduct this audit during 2019–20, with the report tabled in Parliament in August 2020. We discuss the audit in more detail in Section 5.

The audit made 31 recommendations. We accepted 24 recommendations in full, three in part, three in principle and did not accept one recommendation. We formally monitor our progress in implementing these recommendations through periodic updates to our Operations Committee and Audit and Risk Committee.

We will monitor our progress in implementing these recommendations through periodic updates to our Operations Committee and Audit and Risk Committee.

The tabled report is available on our website at <https://www.audit.vic.gov.au/how-we-are-accountable>.

Victorian Inspectorate

The Victorian Inspectorate (VI) is a key oversight body in Victoria's integrity system, with the power to scrutinise our activities. It can receive and assess complaints made about us and it can examine our use of our coercive powers. The Inspectorate can also monitor our compliance with procedural fairness and certain sections of the Act.

We have worked with VI to develop a self-reporting tool about the exercise of our coercive powers. We did not exercise these powers during the financial year.

We understand that VI received one complaint about VAGO from another agency, but it was not within the jurisdiction of VI. We understand that VI did not receive any other complaints about VAGO.

VI made no recommendations to VAGO during the year.

Compliance

As required by the Standing Directions under the *Financial Management Act 1994*, we publish our Gifts, Benefits and Hospitality Policy and Register on our website.

The Auditor-General's expenses are monitored by our Audit and Risk Committee and we also voluntarily publish these on our website to enhance transparency and strengthen accountability.

Further details of our accountability mechanisms can be found on our website at <https://www.audit.vic.gov.au/how-we-are-accountable>.

2. Increasing our relevance

In 2019–20, we delivered a balanced audit program and used new techniques to better audit the efficiency of government agencies. However, COVID-19 affected the delivery of our work program with many audited agencies unable to fully engage with our audits, due to their need to respond to the emergency. As a result, we delayed and deferred some audits, tabling just 15 performance audits in 2019–20. This will have a knock-on effect for our 2020–21 program.

We also experienced delays in our financial audits of universities and Technical and Further Education (TAFE) institutions with 31 December 2019 balance dates. Our 30 June 2020 audits in progress have also been significantly disrupted and we expect many of our audit opinions to be delivered later in 2020–21 than in previous years.



50.0%

of planned performance
audit program tabled in
Parliament



\$473 000

was the average cost of
our parliamentary
reports in 2019–20



1.7%

of agencies disclosed
prior period material
errors in financial
statements

This chapter provides information about:

- delivery of our 2019–20 work programs
 - the efficiency of our services
 - our use of modern audit methods
-

2.1 Our performance audit work program

If we are to strengthen accountability and enhance transparency in the public sector, our reports and advice need to be relevant and timely. A key strategy to increase our relevance has been to widen our audit program to cover our full mandate.

Delivery of performance audits

We have continued our focus on maintaining a balanced audit program that reflects our mandate—a mix of audits that examine whether public sector objectives are being achieved effectively, economically and efficiently and in compliance with relevant legislation.

Our latest *Annual Plan 2020–21*, tabled in June, sets out our three-year performance audit program. This forecast horizon helps to inform Parliament, the public sector and the Victorian community about our short to medium-term goals and priorities. It also provides us with opportunities to undertake early engagement with our stakeholders and improve the scope and focus of our audits. Audited agencies are able to make necessary preparations for scheduled audits well in advance.

We decide which areas to audit by anticipating and responding to current and emerging risks and challenges in the Victorian public sector. A multifaceted approach is taken to identify, assess and prioritise potential topic areas.

This year, our annual plan highlights the impact of COVID-19 and our focus on issues of public concern, including the performance of major infrastructure projects, sexual and reproductive health, fraud control in local government, and reducing the harm caused by gambling.

Parliamentary reporting on performance audits

This year we tabled reports on 15 performance audits in Parliament, four of which we carried over from our *Annual Plan 2018–19*.

We tabled only 11 of the 22 (50 per cent) performance audits listed in our *Annual Plan 2019–20*. Of the 11 remaining audits, eight are delayed because of the disruption to public sector agencies caused by the COVID-19 pandemic.

Three of these audits—*Management of the Student Resource Package*, *Rehabilitating Mines* and *Victoria's Homelessness Response*—have since tabled, with the remaining five (Systems and support for principal performance, Early years management in Victorian sessional kindergartens, Clinical governance, Accessibility of tram services, Managing and enforcing infringements) to table in 2020–21.

We had previously delayed our audit on reducing bushfire risks because of the impacts of the 2019–20 bushfire season on audited agencies. These included their recovery work and administrative pressures on them associated with the Royal Commission into National Natural Disaster Arrangements and the independent inquiry established by the Inspector-General for Emergency Management Victoria in the aftermath of the fires. This audit is scheduled to table in the first half of 2020–21.

We deferred our planned audit on the use of contractors and consultants in the Victorian public service to 2022–23. This was because the Department of Premier and Cabinet (DPC) issued revised guidelines in October 2019 on engaging professional services in the Victorian public service. Departments have been given savings targets for spending on contractors and consultants. DPC will provide a final report on departmental performance in 2022–23.

We removed the audit on the efficiency and economy of Victoria's public hospitals from our program because of our own resourcing challenges, and our awareness of a range of projects underway in the Department of Health and Human Services (DHHS) and health services to improve efficiency.

Impacts of COVID-19 on our performance audit work program

We were in contact with audited agencies during the early stages of the pandemic to ensure that any changes were clearly communicated. As discussed, we deferred and delayed some performance audits to allow public sector agencies to engage and respond to them at a time when the pressures of the pandemic have eased. In particular, we rescheduled several audits in the health sector, given that this sector is at the frontline of the public health crisis. We carefully considered all requests to delay or defer audits in the short to medium term and have worked with agencies to reschedule our work program to support their COVID-19 response efforts.

Following PAEC's suggestion, we have included two new performance audit topics in our *Annual Plan 2020–21*. Our audit on business continuity during COVID-19 will examine whether agencies' business continuity arrangements enabled them to continue delivering essential public services during the COVID-19 state of emergency. Our audit on the management of spending measures in response to the COVID-19 emergency audit will assess whether agencies' spending, including spending through the Treasurer's Advance, has been used for its stated purpose and complies with relevant laws and regulations.

There is limited publicly available information about the process that the government and departments must follow to access funding when responding to urgent and unforeseen expenses, and whether these processes are followed. As a result, we commenced an assurance review focused on the approval to use emergency funding. The review is scheduled for tabling later this year.

We detailed some of the adjustments to our forward audit program in response to the impact of COVID-19 in our *Annual Plan 2020–21*, which is available on our website at <https://www.audit.vic.gov.au/report/annual-plan-2020-21>. As discussed, subsequent changes to the program have also occurred.

FIGURE 2A: 2019–20 performance audits tabled by sector

	Central Agencies and Whole of Government	<i>Cenitex: Meeting Customer Needs for ICT Shared Services</i> (October 2019, report 3)* <i>Sexual Harassment in the Victorian Public Service</i> (November 2019, report 8) <i>Personnel Security: Due Diligence over Public Service Employees</i> (May 2020, report 14)
	Education	<i>Enrolment Processes at Technical and Further Education Institutes</i> (September 2019, report 2)*
	Environment and Planning	<i>Managing Development Contributions</i> (March 2020, report 11) <i>Protecting Critically Endangered Grasslands</i> (June 2020, report 16)
	Health and Human Services	<i>Follow up of Access to Public Dental Services in Victoria</i> (November 2019, report 9) <i>Managing Support and Safety Hubs</i> (May 2020, report 15)
	Infrastructure and Transport	<i>Market-led Proposals</i> (November 2019, report 6)* <i>Freight Outcomes from Regional Rail Upgrades</i> (March 2020, report 12) <i>Safety on Victoria's Roads—Regional Road Barriers</i> (June 2020, report 18)
	Justice and Community Safety	<i>Managing Registered Sex Offenders</i> (August 2019, report 1)* <i>Follow up of Regulating Gambling and Liquor</i> (November 2019, report 10) <i>Ravenhall Prison: Rehabilitating and Reintegrating Prisoners</i> (March 2020, report 13)
	Local Government and Economic Development	<i>Council Libraries</i> (November 2019, report 5)

Note: * indicates audits from our *Annual Plan 2018–19*.

2.2 Our financial audit work program

The independent audit opinions we provide to agencies on their financial statements, and where applicable their performance statements, enhance the credibility and reliability of that information; and allow agencies to discharge their accountability obligation to publish an annual report.

Delivery of audit opinions

In 2019–20 we issued over 560 audit opinions on the financial reports of public sector agencies. We also issued 110 audit opinions on the performance statements of local councils, water agencies and TAFEs.

It is important that our work is reliable and to this end we design our audit procedures to detect material error should it occur. A measure of our performance in

this regard is whether the financial statements we opine on have any corrections to take account of previously undetected past errors.

We set a benchmark of 5 per cent for this measure, reflecting that a financial audit opinion can only ever provide reasonable, rather than absolute assurance about the absence of material error:




- 1.7 per cent of agencies disclosed prior period material errors in their financial statements this year, well within our target of less than 5 per cent.

Parliamentary reporting on financial audits

We are required by our Act to report to Parliament each year only on the results of our audit of the State's financial report, prepared by the Treasurer.

While not required to, in addition to this report, we continue to report separately on the results of our audits of local governments, universities and TAFEs.

FIGURE 2B: **2019–20 reports tabled on the results of financial audits**

	Central Agencies and Whole of Government	<i>Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2018–19</i> (November 2019, report 4)
	Local Government and Economic Development	<i>Results of 2018–19 Audits: Local Government</i> (November 2019, report 7)
	Education	<i>Results of 2019 Audits: Technical and Further Education Institutes</i> (June 2020, report 19) <i>Results of 2019 Audits: Universities</i> (June 2020, report 20)

Impacts of COVID-19 on our financial audit work program

While we are equipped to conduct our financial audits remotely, the need for agencies to divert resources to respond to the crisis, combined with the challenges posed by restrictions on movement, access to workplaces and flexible and remote learning arrangements, affected our and agencies' capacity to achieve predetermined financial reporting and audit timelines.

Our financial audits of agencies with 31 December balance dates were underway when the state of emergency was declared. In response we needed to do extra work to agree disclosures about the COVID-19 emergency and to satisfy ourselves they remained a going concern. This delayed some audit opinions.

We surveyed our clients to set mutually agreed timelines and scaled up our resources to manage the shift in workload.

For our work on agencies with 30 June 2020 balance dates, we joined a working group with representatives from the Department of Treasury and Finance (DTF) and DPC to consider alternatives to financial reporting and audit timelines. Outcomes of this working group allowed us to take a staged approach to financial reporting and audit timelines, focusing on our audit of the Annual Financial Report of the State of Victoria for the 2019–20 financial year and material entities first. Material entities are those entities that are significant to the financial performance and position of the state. This means that we will provide many of our non-material audit opinions later in the 2020–21 financial year when compared to previous years. We will report on this next year.

In addition, our review report on the Estimated Financial Statements for the General Government Sector for the 2020–21 financial year has been delayed until late 2020.

2.3 Efficiency of our services

Services to Parliament

The average cost of our parliamentary reports in 2019–20 was \$473 400, which is 10.2 per cent lower than our 2018–19 result of \$527 200, and 8.8 per cent lower than our 2019–20 target of \$519 000.

However, our target included all of the audits scheduled for 2019–20 in our Annual Plan. The actual result reflects the costs of tabled audits only, of which there were significantly fewer than last year.

This year our performance audits took an average of 10.1 months to complete, the same as last year. This exceeded our target time of 9 months. The causes of these delays included:

- agencies requesting more time to respond to us due to the impact of COVID-19
- our need to replace audit staff due to unexpected leave and departures
- our need to undertake additional work either due to new evidence or to obtain sufficient and appropriate audit evidence to support our conclusions and findings.

The average time to produce our parliamentary reports on results of our financial audits after the balance date in 2019–20 was 5.3 months. We did not meet our target of 5 months. This was due to delays in tabling our financial audits in the university and TAFE sectors. These delays occurred because we needed to:

- resolve accounting issues regarding the treatment of grants
- work with entities to ensure they adequately disclosed the post balance effects of COVID-19 on their operations.

This had a flow on effect which delayed the finalisation of the two parliamentary reports.

Services to the public sector

The public sector agencies we audit pay us for the financial audit work we do for them. Because our Act provides for us to recover reasonable costs only it is important that we continuously monitor and benchmark our service costs.

The average cost of the audit opinions we issued on financial statements during 2019–20 was \$50 200, which was lower than our 2018–19 result of \$51 000 and 3.2 per cent lower than our target of \$52 000.

We also benchmark our average costs against other State and Territory audit offices with similar mandates:

- the average cost of the audit opinions we issued on state government entities was \$64 100, below the ACAG state and territory average of \$84 000
- the average cost of audit opinions we issued for local government entities was \$47 700, lower than the state and territory average of \$58 193.

Because the agencies we audit have statutory timeframes to complete their annual financial statements and to table their annual reports, it is imperative that our work is timely.

- We issued audit opinions for 98.1 per cent of agencies within four weeks of receiving their finalised statements, which is consistent with our performance last year of 98.3 per cent.
- We also issued 92.3 per cent of final management letters to agencies within four weeks of the audit opinion being issued, exceeding our target of 90 per cent.

2.4 Modernising our auditing methods

Our performance audits

In 2019–20, we continued to improve our audit techniques by incorporating new and emerging technology-enabled practices. This included establishing a dedicated data science team with a focus on exploiting data and statistical analysis to support the performance audit program.

Specific examples of statistical and data analysis applied to performance audits in 2019–20 include:

- *Council Libraries*—calculation of library productive efficiency using data envelopment analysis
- *Enrolment Processes at Technical and Further Education Institutes*—process mining to understand the difference between policies and processes
- *Safety on Victoria's Roads—Regional Road Barriers*—program evaluation through modelling fatality and serious injury rates as a Poisson process
- *Personnel Security: Due Diligence over Public Service Employees*—experimental design and policy breach detection using fuzzy data matching.

Perhaps as important as carrying out analysis directly, the data science team's second mandate is to transfer knowledge to performance audit team members to enable them to carry out more sophisticated data analysis themselves. This has

resulted in more performance audit staff learning and applying skills in statistical analysis and the use of software applications such as Python and PowerBI.

Our financial audits

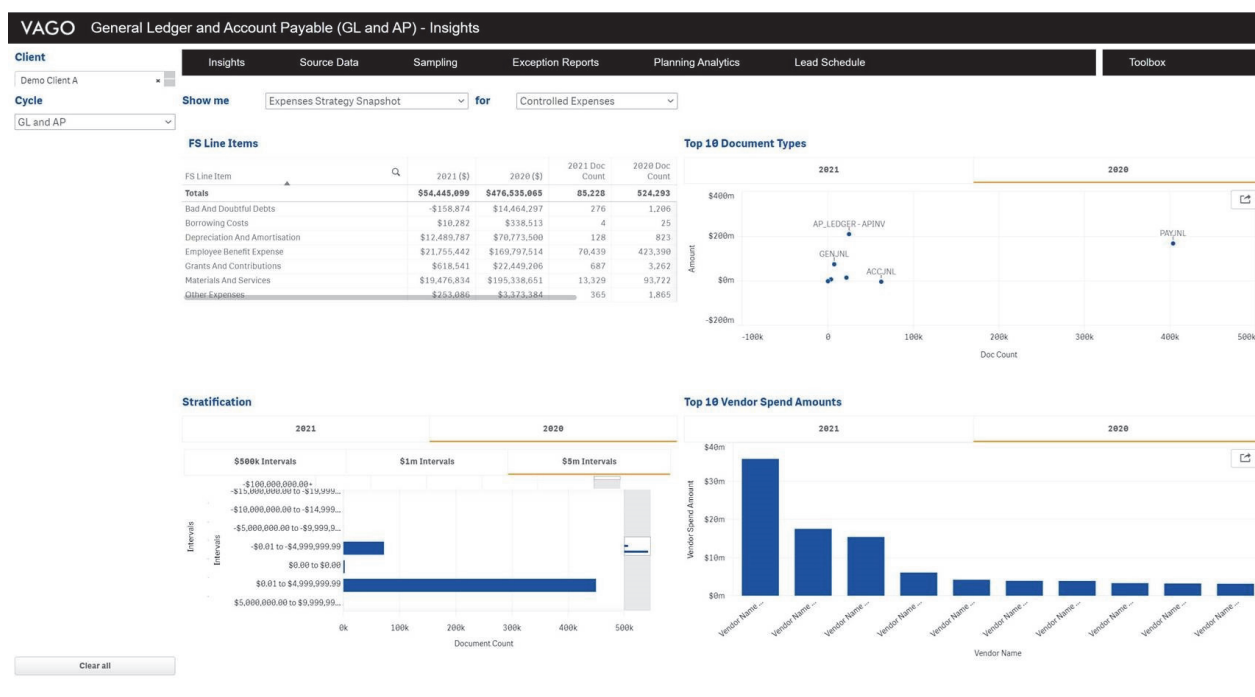
We continued to update our new methodology—Engage, Plan, Implement and Conclude (EPIC). EPIC is more streamlined than its predecessor (IPSAM); it focuses on key risks and uses decision aids to help auditors best target their audit program. All audits conducted for the year ending 30 June 2020 applied the EPIC methodology.

We also released our in-house-built data analytics platform Empower, which supports our audits of financial reports. This platform:

- collects and ingests data
- cleanses and checks data for completeness
- transforms data into our VAGO single system
- maps and categorises data for auditors to use
- applies rules and audit logic that had previously been applied manually by auditors
- visualises the results in dashboards for auditors' consumption.

We generate 54 regularly updated internal dashboards that cover 30 of our largest audit clients. These dashboards do everything from providing our auditors with the source data they need for their audits, sampling, and planning analytics right through to fully recalculating material classes of revenue.

FIGURE 2C: A deidentified internal dashboard



3.

Growing our influence

COVID-19 has driven us to find new ways to engage with our stakeholders, such as through remote briefings for parliamentarians.

We tabled several audits in 2019–20 that originated from referrals from parliamentarians and plan to table several more in the coming year.

Our surveys of stakeholders show increased levels of satisfaction with our performance among parliamentarians and chief financial officers (CFOs) of the agencies we audit.



90.0%

of parliamentarians are satisfied with our services
Up from 73.6% in 2018–19



97.8%

of performance audit recommendations between 2015 and 2018 were accepted by agencies



95.0%

of CFOs value the assurance obtained from our audit
Up from 89.0% in 2018–19

This chapter provides information about our:

- Engagement with stakeholders
 - Feedback from stakeholders
 - Audit topics' origin
 - Leveraging access to data
 - Impact in 2019–20
-

3.1 Engaging with our stakeholders

Our primary stakeholders are parliamentarians, the public sector agencies we audit and the Victorian community. We actively engage also with our peers and the accounting and auditing profession.

Parliament

In October 2019 we welcomed the newly formed PAEC and Committee Chair to our office to discuss our annual planning process and role more broadly. The Committee provided valuable feedback on our forward audit program and discussed potential areas of audit interest.

We introduced a virtual parliamentary tabling process for our audit reports to ensure that we meet all relevant requirements and largely maintain our tabling schedule.

We have adapted to the circumstances and have been emailing digital copies of our audit reports, tabling notifications and transmittal letters, instead of providing signed hard copies in person to parliamentary offices. We have also reduced the number of physically printed copies of our reports, which are delivered to Parliament House, as requested.

As in-person briefings for parliamentarians have not been possible during the pandemic, we have been conducting briefing sessions on tabled reports remotely since May. During these sessions, we provide an overview of our audit findings and respond to the Members' questions. These briefings occur on the report tabling day and are open to parliamentarians and their staff.

We also responded to inquiries received from parliamentarians throughout the year. On average, we took 15 days to finalise a response, successfully meeting our target of 20 days or less.

Public sector

Our financial and performance audit staff regularly attend and present at forums and conferences for professionals across sectors. In 2019–20 these included departmental CFO forums and industry forums, including:

- Institute for Water Administration Special Interest Group Forum
- VicWater—Future State of Finance Conference

- Healthcare Financial Management Association Annual Conference
- Health Industry Finance Committee meeting
- Victorian Healthcare Association CEO Forum
- Regional Cities Victoria Forum
- FinPro South West Finance Forum
- FinPro Q&A panel sessions for members
- FinPro 2020 Vision - Looking forward clearly Conference
- Prisons 2019 Conference
- Public Sector Innovation Network Forum
- Australian Public Sector Anti-Corruption Conference.

We adapted our annual Audit Committee Chairs' Forum from an in-person event to our first live-streamed forum. This change was well-received by the 147 attendees, with many advising us that the flexible delivery and ability to attend remotely were positive developments. The forum focused on key audit, IT and financial reporting impacts from the pandemic, including a presentation from John O'Driscoll the Chief Information Officer of Victoria, presenting on IT security and resilience. Many attendees noting the presentations were focused, succinct, engaging and highly relevant to agencies' current circumstances in light of the pandemic.

However, COVID-19 did force us to cancel IMPACT 2020, the biennial international meeting of performance audit critical thinkers, which we were due to host in March 2020. Instead, we have uploaded most of the scheduled presentations on our website, including the keynote address from the Hon. Kenneth Hayne AC, former Justice of the High Court of Australia.

While IMPACT 2020 did not go ahead, our *Recovering and Reprocessing Resources from Waste* audit team was recognised in the performance audit awards category of Excellence. The award recognises the use of exceptional audit methods, attainment of impeccable standards of evidence, presentation of findings and conclusions, and positive and sustained impacts. The awards were judged by Australasian Council of Auditors-General (ACAG) Heads of Performance Audit and the ACAG executive and drew nominees from audit offices across Australia and New Zealand.

Profession and peers

Throughout 2019–20, we welcomed a number of international audit delegations, including the State Audit Office of Vietnam, the New Zealand Office of the Auditor-General and the Brazilian State Tribunal of Rio Grande do Sul. These visits provide opportunities for us to exchange ideas and knowledge with other audit offices and strengthen our peer networks and opportunities for collaboration.

Our Financial Reporting Advisory (FRA) team engages with the Australian Accounting Standards Board (AASB) on a regular basis in relation to the application of accounting standards and potential implementation issues in the public sector. This includes providing feedback on various Exposure Drafts released by the AASB via the ACAG network and also representing on AASB's Project Advisory Panels in relation to projects relevant for public sector entities such as Fair Value Project Advisory Panel and Conceptual Framework Project Advisory Panel.

This year was particularly challenging with four new accounting standards that became applicable for the first time to not-for-profit public sector entities.

These standards were:

- AASB 15 *Revenue from Contracts with Customers*
- AASB 1058 *Income of Not-for-Profit Entities*
- AASB 16 *Leases*
- AASB 1059 *Service Concession Arrangements: Grantors*.

The FRA team and representatives from our Financial Audit team were part of an AASB working group that considered key implementation issues relating to the application of AASB 15 and AASB 1058 and contributed to the development of the related AASB Frequently Asked Questions.

In addition, the FRA team has worked closely with the Accounting Policy Team at the DTF on financial reporting directions and various policy papers released by DTF during the year in relation to implementing these new accounting standards.

Our Audit Quality (AQ) team engages with the Australian Auditing Accounting Standards Board (AuASB) in relation to the application of accounting standards and potential implementation issues in the public sector. This includes providing feedback on various Exposure Drafts released by the AuASB via the ACAG network.

Our Data Analytics and Systems Assurance (DASA) team hosted a meeting of heads of data analytics from ACAG audit offices in November 2019. The purpose of the meeting was to share how offices are approaching the use of data analytics on audits and to demonstrate our progress with the development and deployment of our data analytics toolset, Empower.

A representative from our DASA team is a part of an Australian Auditing Standards Board (AuASB)-led Project Advisory Group (PAG). The PAG assists the AuASB's Technical Group by drawing on our professional expertise and experience in developing guidance:

- To support the use of technology by auditors in executing audits
- To support auditors in auditing the outputs of technology used by their clients in areas critical to the audit.

3.2 Feedback from our stakeholders

Parliamentarians

We survey parliamentarians every year to understand how well we are serving them. Our 2019–20 survey told us that parliamentarians find our reports and services useful sources of information on public sector performance that help improve public sector administration and assist them in their roles.

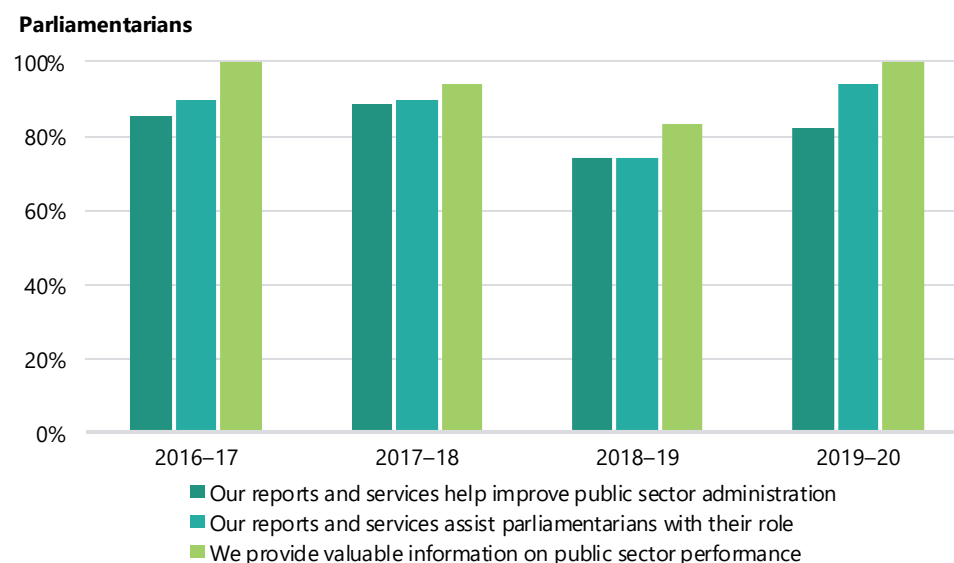
Our overall satisfaction rating among parliamentarians improved in 2019–20, with 90 per cent of survey respondents satisfied with our reports and services.

While parliamentarians were generally satisfied with the accessibility of our products and services, the survey responses highlighted that they would like to see more data dashboards and be given the opportunity to learn how to use them. They would also like us to communicate our products and services via social media and in more digestible summaries.

In response, we made several improvements to our parliamentary products:

- We are continuing to build our catalogue of data dashboards and have expanded our social media presence.
- We modernised our video summaries of audits, introducing a refreshed look and animations to better convey our key findings.
- We developed a refreshed parliamentary report template released in 2020-21. Our 2020-21 reports now include a snapshot summary and we have a new website format, making them easier to access, digest and share.

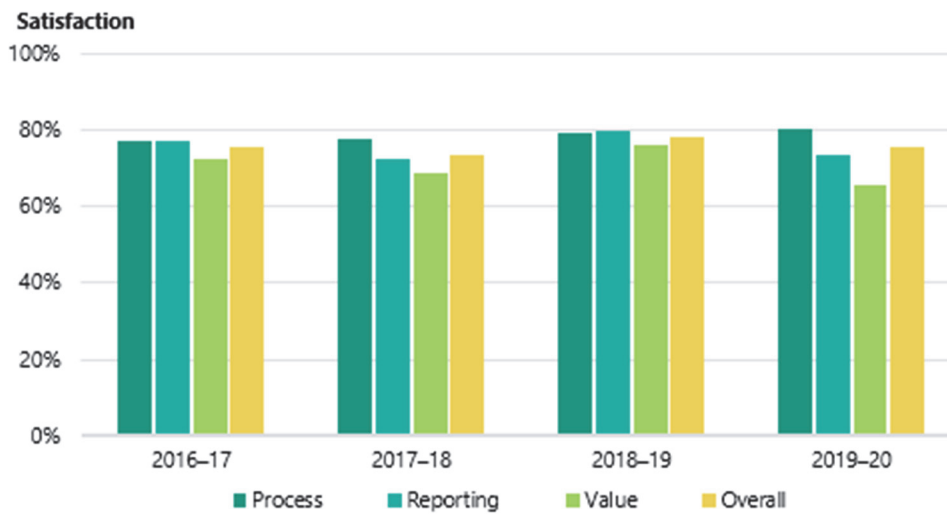
FIGURE 3A: **Parliamentarian satisfaction survey data**



Public sector

We 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. Figure 3B shows our results for 2019-20 tabled audits. While the score for our process has improved since 2016-17, scores for our reporting and value areas are down from 2018-19. Our overall score has also dropped from 78.0 per cent to 75.3 per cent.

FIGURE 3B: **Performance audit survey results**

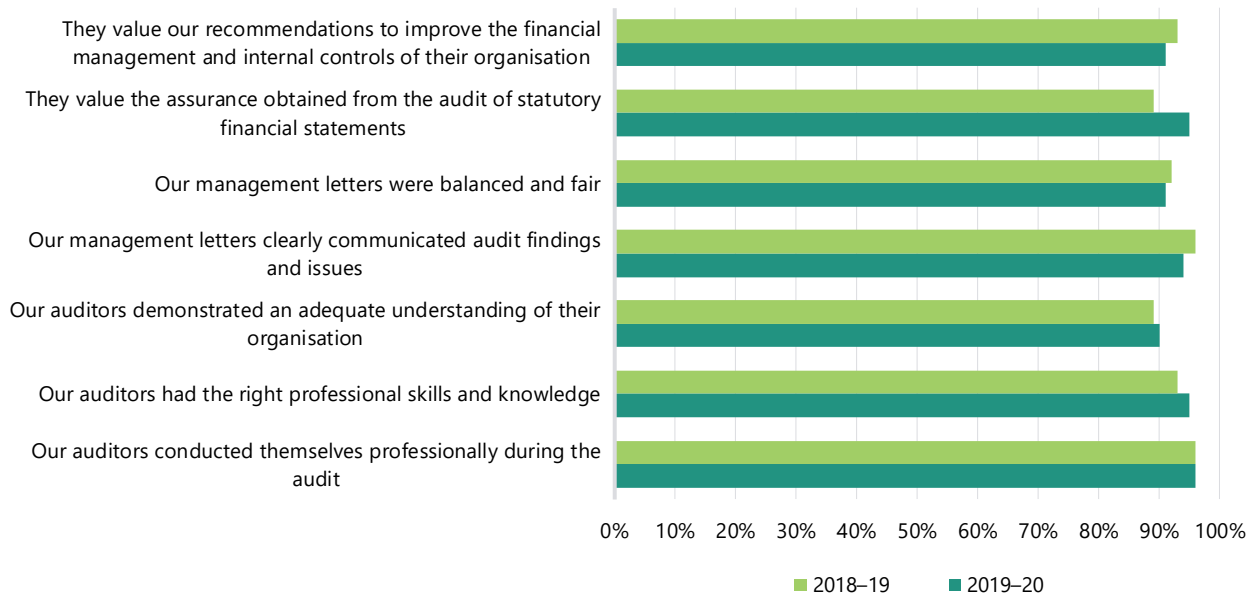


Our scores were affected by the survey response to our *Market-led Proposals* audit. The audit found DTF and Victoria Police could have been more transparent in the advice they provided to government concerning their assessment of market-led proposals. It concluded that not doing this meant decision-making regarding these significant projects procured outside a competitive process had been compromised.

Victoria Police and DTF did not accept the audit's findings. The audit also made three recommendations to DTF, none of which they accepted. The survey scores for this one audit lay significantly outside the average scores across all audits and therefore negatively impacted the overall results. Excluding the *Market-led Proposals* survey resulted in our overall score being more consistent with the previous year, 77.2 per cent for 2019-20, and 78.0 per cent in 2018-19.

Our financial audit survey this year continued to show very positive results. As with our performance audit surveys, we asked CFOs about our process, reporting and value. Figure 3C shows some of the highlights of our 2019-20 results.

FIGURE 3C: 2019–20 financial audit survey results



3.3 Where our audit topics come from

We consult the agencies we audit and a wide range of Victorian stakeholders to develop our annual plan of audit topics. We want to ensure that our audit topics reflect issues of concern to parliamentarians and the public, so we aim to increase the number of our audits that originate from these sources.

In 2019–20, we received 138 requests and comments from the public and elected officials, comprising:

- 126 from the general public
- three from local councillors
- eight from state parliamentarians
- one from the public sector.

Some of our planned audits relate to issues raised in these referrals, including:

- Fraud control over local government grants
- Supporting students with disabilities
- Major projects performance.

We tabled several audits in 2019–20 that originated from referrals from parliamentarians, such as *Freight Outcomes from Regional Rail Upgrades* and *Safety on Victoria's Roads—Regional Road Barriers*.

We received several requests from parliamentarians and the public to follow up on our *Managing the Level Crossing Removal Program* audit, tabled in December 2017. We will publish the follow up audit in 2020–21.

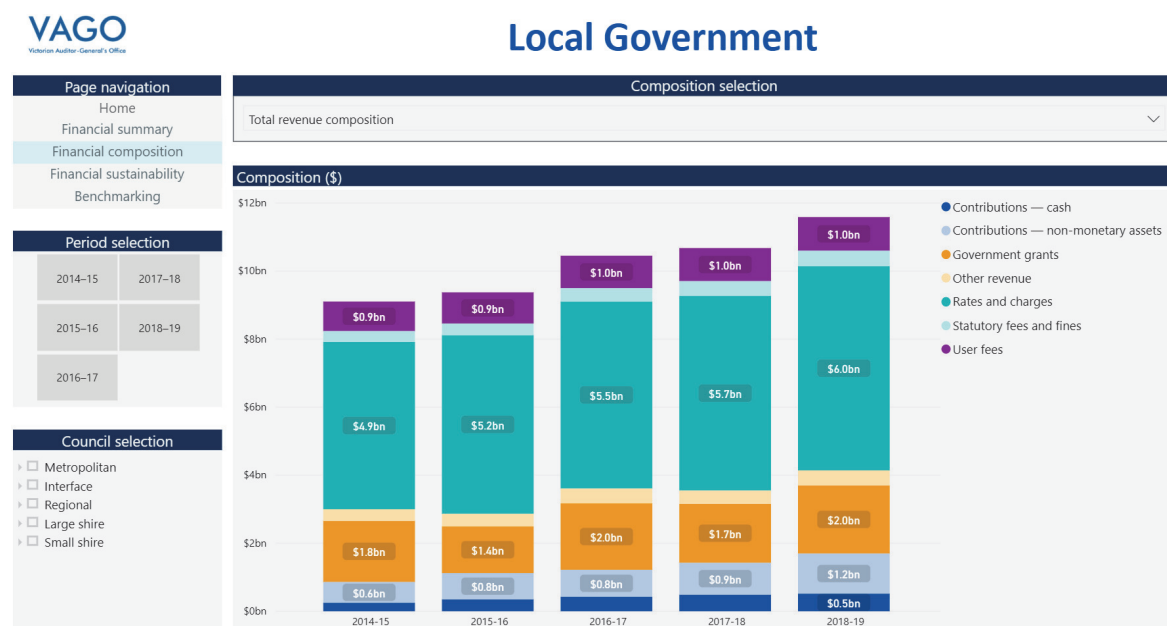
3.4 Leveraging our access to data

We are increasing our use of datasets and interactive dashboards that we then make available to the general public. Our dashboards allow any user the ability to download the underlying data. This increases the accessibility of our work and allows people to use our data in a way that is valuable to them.

For example, our *Managing Development Contributions* audit included an online dashboard that allows a user to find out how much money their council has received in development contributions and how this compares to other councils.

For our assurance review, *Responses to Performance Audit Recommendations 2015–16 to 2017–18*, we published an online tracker that allows users to find out how 64 agencies have responded to our performance audit recommendations. This is a visualisation of the report appendix to allow the parliament and the public to readily see performance and to allow agencies to compare themselves to others.

Our most viewed dashboard in 2019–20 displayed data from our *Results of 2018–19 Audits: Local Government* audit. We also published dashboards on financial data for Victorian public hospitals and water entities, which showed their performance across the last five years.



Source: <https://www.audit.vic.gov.au/report/results-2018-19-audits-local-government>

3.5 Our impact in 2019–20

Parliament

Many of our performance audits have received attention in Victoria's Parliament. In particular:

- our *Security of Patients' Hospital Data* report became a subject of repeated discussion after a ransomware attack on Victorian hospitals and health services in October 2019
- the Environment and Planning Committee made multiple references to our *Improving Victoria's Air Quality* report in its discussion of the Environment Protection Authority's (EPA) intention to expand the network of fixed air monitors 'in line with recommendations from the independent inquiry into the EPA and from the Auditor-General.'
- the November 2019 Parliamentary Inquiry into recycling and waste management quoted our *Recovering and Reprocessing Resources from Waste* audit heavily (over 40 mentions). According to the Inquiry report, '...in the Committee's view, addressing the concerns raised by the Auditor-General should be a priority for the Victorian Government and a review of progress made should be undertaken... to ensure that improvements are apparent and are continuing to be made'.

In addition, PAEC tabled a follow-up inquiry into our *Meeting Obligations to Protect Ramsar Wetlands* report. This inquiry looked at the progress that has been made implementing audit recommendations, identified issues with implementation, and investigated new issues that have arisen since we tabled the report.

Our reports *Access to Mental Health Services* and *Child and Youth Mental Health* received Parliamentary attention throughout the year. They were also considered in the Royal Commission into Mental Health, for which the Auditor-General was requested to appear to provide a briefing on our work. The Royal Commission's interim report made significant references to our audits, delivering recommendations that are consistent with those made in our two reports.

Public sector

Agency responses to performance audit recommendations

In 2019–20, we conducted our first assurance review, *Responses to Performance Audit Recommendations 2015–16 to 2017–18*. The review replaced the annual follow-up survey we have been conducting since 2015–16.

The review assessed whether agencies have effectively addressed our past performance audit recommendations. It involved 64 agencies with 465 outstanding recommendations from 44 performance audits over a three-year period.

An assurance review compels agencies to provide requested information to us using the same powers in the Act as for an audit. Participation in our previous surveys was not mandated and as such our response rates were lower.

FIGURE 3D: **Agency responses to assurance review**

Metric	Result
Assurance review survey response rate	100 per cent
Audit recommendations accepted by agency	98 per cent
Audit recommendations reported as implemented	60 per cent (a further 38 per cent underway)
Days on average to implement a recommendation after the audit tabled	457 days
Agencies that reported the audit added value to their organisation	96 per cent

Source: VAGO, *Responses to Performance Audit Recommendations 2015–16 to 2017–18*.

We also use the results of the survey, combined with information from our 2018–19 survey, to report to Parliament in our Budget Papers the percentage of accepted performance audit recommendations that audited agencies report as implemented across a two-year period. In 2019–20 we achieved 80.8 per cent, which exceeded both our target of 80 per cent, and our 2018–19 result of 78.4 per cent.

It is pleasing that agencies take action where they agree with our audit recommendations, albeit at times slower than they planned to.

But to be fully effective requires that agencies first agree to our recommendations. To this end we take considerable effort to analyse the root causes of the issues we identify in our audits and strive to develop practical recommendations that address these root causes. That we are successful in this endeavour can be measured by the percentage of our recommendations with which agencies agree and commit to take action.

During 2019–20 we made 268 recommendations, and with the singular exception of our November 2019 report on *Market-led Proposals*, 97 per cent of these recommendations were accepted.

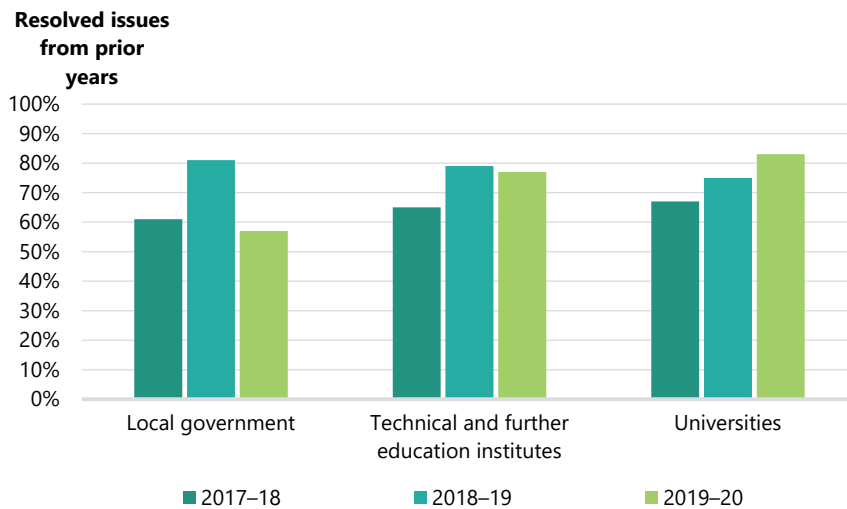
Disappointingly, DTF disagreed with the three recommendations we made in our report, all of which were designed to enhance the transparency and improve the effectiveness of the market-led proposal process. It did so on the basis that ‘the Report does not provide a reasonable basis to support any of the recommendations’ as set out by the Secretary of DTF in his response to our report, which was included in full.

The responsibility for balance, fairness and accuracy of the DTF response rests with the Secretary. It was from these perspectives that the Auditor-General wrote to the Secretary before he tabled the report to draw his attention to our concerns with his response. One of our major concerns was the assertion that we had not substantively engaged with DTF on the audit. The Auditor-General expressed his view to the Secretary that this was ‘demonstrably unfair and misleading’ which he supported with key facts about the nature and timing of engagement. The Auditor-General also shared his concerns with the Treasurer.

Agency responses to financial audit recommendations

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 and other matters we find and make recommendations to resolve them. Agencies respond to these letters with their intended actions. This year we continued to see improvements in the number of issues being resolved, particularly in the education sector.

FIGURE 3E: **Percentage of resolved issues from prior years**



We collect data on the resolution of issues from prior years across these three sectors as part of our parliamentary reporting. We are looking to report this information more broadly across all sectors going forward.

Over the past three years, across all sectors, the average number of open issues remaining at the end of the year has steadily declined. This demonstrates the commitment of agencies' management to a strong control environment and the positive, long-term impact of our approach.

4.

Investing in our people

In our Strategic Plan, we set ourselves the objective to enable high performance by our people through our supportive culture, professional development and collaboration.

Our employee engagement score dropped to 60 from 66 last year. In response, we engaged in a series of workshops with staff and created a *People Matter Action Plan*.

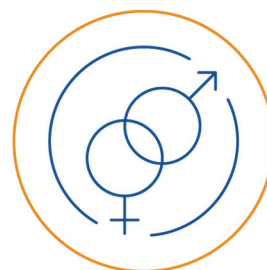
We delivered 475 hours of training in 2019–20 to increase staff capability and knowledge, an average of 36 hours for each full-time staff member. Women made up 55 per cent of our workforce in 2019–20 and 42 per cent of our executives.



60
employee
engagement score
66 last year



36
hours of training on
average for each staff
member during
2019–20



55%
female workforce
42% female executives

This chapter provides information about our:

- Staff
 - Improvements in workplace culture
 - Improvement in skills
-

4.1 Our workforce

Our employees

Appendix A includes a profile of all VAGO employees. The workforce profile shows our employees by age, seniority, whether they are part-time or full-time, on fixed-term or ongoing contracts, and by gender.

As of 30 June 2020, 55 per cent of our workforce were women. However, women made up 100 per cent of our part-time workers (unchanged from 2018–19) and 42 per cent of our executives (up from 38 per cent in 2018–19).

Our gender pay gap is 2.7 per cent in favour of women.

Ensuring the health and wellbeing of our staff has been our main priority during the COVID-19 pandemic. We surveyed our staff in April to get a greater understanding of their existing health and wellbeing status and potential needs going forward. A 96 per cent survey response rate provided us with valuable information about how our staff were feeling about working from home, staying connected with their colleagues and their ability to disconnect from work and recharge. We also asked our staff to tell us how we could best support them during this time.

Staff also completed an online self-assessment regarding their comfort and safety at home to ensure that their home office equipment and technology solutions meet their needs.

We adapted our professional learning and development program content for virtual learning where possible, and staff have continued to utilise our online booking system. We also introduced a comprehensive suite of online health and wellness activities, such as virtual yoga and fitness classes and mindfulness and nutrition advice, to assist in maintaining staff mental and physical health while working from home.

Our Social Club has also remained extremely active, and has initiated a wide range of online games, cultural discussion topics, 'lunch and learn' sessions and trivia to keep staff motivated and connected.

From March, we began live streaming our fortnightly briefings and quarterly business unit forums to ensure that our communication lines with staff remained open. We also facilitated more regular engagement with our audit service providers, meeting virtually, bi-monthly in the lead up to the end of the financial year. We also introduced a special leave entitlement for all employees in accordance with Victorian public service guidelines. This entitlement provided staff who were directly or indirectly affected by COVID-19 due to school or childcare centre closures, restrictions on care arrangements, or the requirement to quarantine or self-isolate, with the ability to access leave for these purposes.

Audit service providers

To help us deliver more than 560 annual financial audits for public sector organisations, we employ a panel of audit service providers to perform audit work on our behalf.

Given the recent rapid changes occurring in the audit profession, driven by new technology and broader considerations of the independence of auditing firms, we judged this year that our audit service providers panel's requirements and processes were no longer fit for purpose.

As a result, we went to market in 2019–20 to establish a new panel to improve the panel's composition, engagement process, allocation method, performance management and the quality and nature of services it delivers. During this process, we placed a greater emphasis on data protection and governance, and firm quality control and assurance.

The objectives of our new panel arrangement are to:

- obtain access to a consistent level of audit quality and value-for-money audit services
- achieve continuous improvement towards best practice in financial audit services
- engage service providers that have a strong cultural fit with VAGO and develop strong relationships with them
- achieve process efficiency and effectiveness.

The new audit service providers panel is expected to be finalised in the 2020–21 financial year.

4.2 Improvements in our workplace culture

Despite the challenges of the COVID-19 crisis, our senior leadership team continued to focus on prioritising employee experience and organisational culture throughout the year. During this period of change and transition, we curated and created resources to help restore wellbeing, including webinars, virtual yoga, games and quizzes. We discussed how different communication tools help build deeper connections within teams and focused on how empathetic leadership can be used to improve engagement and productivity. We revised our procedure to recognise and reward staff who demonstrate our values, which encourages our staff to tell others about those who perform above expectations.

In May 2018, we launched a new set of values (respect, innovation, collaboration and accountability), developed by staff. In 2019–20 we further embedded these values in our organisation.

We held a values month in November 2019, which involved various activities where we expressed our unique skills, talents and experiences and took the time to get to know more people across the organisation.

For example, we assigned people to random teams to construct bridges out of wooden sticks and held a ceremony to judge the winner.

FIGURE 4A: Two of the contending bridge designs



Our teams spent a day volunteering at Brotherhood of St Laurence to sort donated goods and were educated about the operations of the warehouse and how it improves the lives of disadvantaged Victorians.

We also volunteered to help prepare and serve over 400 nutritious, three course meals at the Sacred Heart Mission. We collected non-perishable goods for Australia's largest food relief organisation, Foodbank, which contributes to emergency grocery hampers for struggling families. We also volunteered our time at a working bee for Cubbies Adventure Playground, repairing cubbies for kids.

People Matter Survey

We received our 2019 People Matter Survey results in mid-2019 and analysed them to understand how we could improve the everyday experience of our employees. Our employee engagement score was 60 per cent, down from 66 in 2018, while our employee satisfaction was 60 per cent, down from 65 the previous year. The areas that were identified for attention included appropriate behaviour and avenues of redress, wellbeing and workloads, and diversity.

We engaged an external organisation to facilitate a series of workshops in October 2019 to explore themes including change management, appropriate behaviour and sexual harassment, workload stress, and reward and recognition. In these workshops, staff shared their ideas on what we should do to improve everyone's experiences at work.

As a result of these engagement activities, we developed and launched an employee-led *People Matter Action Plan* in May 2020 to further our commitment to building an open, constructive and collaborative workplace that is aligned with our core values. The plan outlines key objectives and strategic initiatives, including values-led leadership, effective change practices, creating a culture of safety, balancing work with life and celebrating success.

To demonstrate best practice and accountability, we published our People Matter Survey results on our website in November 2019. (<https://www.audit.vic.gov.au/how-we-are-accountable>)

We plan to participate in the 2020 survey, which was delayed by the Victorian Public Sector Commission due to the present emergency.

Diversity and Inclusion Plan

We are in year two of our *2019–22 Diversity and Inclusion Plan* and are continuing our focus on developing awareness and maturity of diversity matters. We recognise that diverse and inclusive workforces have a better capacity to meet business needs, are adept at providing different ways of looking at work issues and drive higher innovation and productivity.

In 2019–20, we established a diversity and inclusion working group who met regularly to work through and implement the plan.

One element of our *2019–22 Diversity and Inclusion Plan* is our aspiration to provide an inclusive workplace that fosters respect, understanding and unity between Aboriginal and Torres Strait Islander peoples and non-Indigenous Australians. Our role working across the public sector, necessitates that we develop the skills to recognise and value the experiences, perspectives and cultures of Aboriginal and Torres Strait Islander peoples.

To achieve this, a subset of the diversity and inclusion working group was formed—our Reconciliation Action Plan (RAP) working group, comprising senior executive and non-senior executive staff as well as Indigenous community members. We are proud to work alongside three Aboriginal and Torres Strait Islander community members who will provide advice and support as we finalise our RAP. The RAP is a living document that we anticipate will be approved by Reconciliation Australia later this year. Once approved, the RAP committee will be responsible for its implementation alongside the other initiatives in our *2019–22 Diversity and Inclusion Plan*.

We purchased and now display local Aboriginal and Torres Strait Islander artwork in our office to demonstrate respect and awareness that VAGO exists on Wurundjeri land. We also supported staff to attend a film screening, *Connection to Country* as part of VAGO's National Aborigines and Islanders Day Observance Committee (NAIDOC) week celebrations.

We ran two Aboriginal Cultural Awareness training sessions for staff prior to commencing remote work. As this training is most effective when in a face-to-face environment, we decided to postpone the remainder of these sessions due to COVID-19. Despite this, we continue to celebrate days of significance while working remotely. We have recently acknowledged National Reconciliation Week and Refugee Week with overwhelming engagement from staff discussing diversity and inclusion, demonstrating their commitment to enacting change in this space.

We also had guest speakers throughout the year, aligned to our values and *2019–22 Diversity and Inclusion Plan*. Jess Perrin from Infoxchange talked about social impact programs and digital inclusion. Beau Vernon, a motivational speaker and Director of Interact Australia, talked about how his experience of quadriplegia strengthened his resilience and ability to help others.

We conducted an accessibility/ability review of our premises to identify barriers to accessibility and any adjustments that need to be made to ensure our offices are accessible to all. Due to the COVID-19 pandemic, the actions arising from the review have been postponed to early 2021.

4.3 Improvements in our skills

In 2019–20, we continued our focus on building a workplace culture that fosters continual growth and development, collaboration and innovation. To support this, employees undertook mandatory training on Microsoft products Power BI, Word, Excel and Teams to build business efficiency.

In addition, we held a number of workshops and seminars to increase staff capability and knowledge, such as appropriate behaviour training, manager foundations, writing skills, fraud and corruption awareness, and a suite of technical training for performance and financial audit staff.

In total, we delivered 475 hours of training in 2019–20 to increase staff capability and knowledge, an average of 36 hours of professional development for each full-time staff member.

Financial audit

Every year we invest time in upskilling our financial audit staff via training on relevant topics. This year was particularly challenging, with four new accounting standards becoming applicable for the first time to not-for-profit public sector entities.

This year we invested time in the development of new and improved 'learning aids' for these standards. The learning aids included:

- flowcharts to help navigate through each standard
- guidance to support the learning aid, including key judgement areas in each standard
- audit worksheets to assist audit teams document conclusions when assessing transactions impacted by the new standards
- Illustrative examples to demonstrate practical application of the new standards

Following the release of learning aids, information sessions were held to assist audit staff on:

- how to navigate through the learning aids; and
- key judgement areas and related guidance in each of the standard

Performance audit

We also collaborated during the year with the Canadian Audit and Accountability Foundation (CAAF) and audit offices around Australia to develop and deliver performance audit training. Attended by participants from several Australasian jurisdictions, the following training was delivered:

- leading successful audits (three days)
- audit evidence and reporting (two days).

5.

Leading by example

Our workforce productivity increased slightly in 2019–20. We continued our network uplift project and also delivered initiatives to support governance and improve compliance.

The PAEC commissioned a quadrennial performance audit of our organisation. The audit was positive overall, and made 31 recommendations for improvement, all but one of which we accepted either in full, in part or in principle.



61%

Workforce
productivity
60% last year



230k

website views of
our reports
Up from 218k in 2018–19



100%

of network drives
migrated to
Microsoft OneDrive

This chapter provides information about our:

- Technology updates
 - Data protection
 - Communications improvements
 - Governance initiatives
 - Assurance of audit quality
-

5.1 Our technology and data protection

In the second year of our two-year Information Technology (IT) strategic plan, we:

- made use of our access to cross-government datasets to provide new insights
- streamlined and increased automation
- further invested in cloud technology
- further integrated our business systems
- shared information to improve our practice
- leveraged the DPC state-purchasing contract to acquire cost-savings around licences and products.

Our IT projects in 2019–20 focused on two keys pillars—cybersecurity and user experience.

Cybersecurity

Stage 2 of our network uplift project delivered north–south network security to protect workloads in Microsoft Azure, joined our firewalls and switched to internal authentication, and further secured our environment against the risk of malicious network activity.

We secured privileged access to provide time-based and approval-based role activation to mitigate the risks of excessive, unnecessary or misused access permissions on our resources.

We further reduced the risk of losing access and control over our Office 365 environment by ensuring we have a backup of our data residing in Office 365, which includes SharePoint, Exchange, OneDrive for Business and Teams and is secured against data loss and corruption using Veeam Backup for Office 365 software.

User experience

As a part of our COVID-19 response and recovery, we mobilised a project team to ensure that all of our staff have the best available IT equipment to work comfortably and uninterrupted during this period. Within two weeks of remote work commencing, the team surveyed all staff on their requirements, sourced equipment, hired vehicles and coordinated pickup and delivery of required equipment to 165 homes.

We have continued to mature our use of Microsoft Teams, migrating our external phone numbers from Skype for Business and deploying five new Surface Hub devices in our large meeting rooms. As part of this process, we:

- now use the Microsoft Teams application on all Surface Hubs and mobile devices
- removed all desk phones and provided Bluetooth headsets as required
- decommissioned Skype for Business
- removed old software and hardware from meeting rooms and laptops
- implemented an analogue (public switched telephone network) phone and line for our first aid room.

Leveraging off our Microsoft Teams investment, we also standardised our support functions by creating a unified support desk. This involved introducing one phone number for staff to call for support inquiries across IT, HR, finance, facilities, business support and data analytics, and included a review of all shared mailboxes and service desk email addresses.

VAGO received positive feedback from the Commercial Executive with Microsoft, in relation to our investment in and management of Microsoft 365 licenses. After a tour of our office he wrote that he valued, 'the opportunity to see', for example, 'how extensively Teams is being used as a collaborative tool across VAGO.'

Redevelopment of VPN infrastructure

In 2019–20, we fully migrated our virtual private network (VPN) infrastructure to Azure. This has provided us with a highly available environment and enabled modern authentication processes across all of our Microsoft applications.

Impacts of COVID-19 on our business systems

Our IT systems and software in place prior to the onset of COVID-19 meant we were able to transition to a working from home environment quickly. We began talking to our staff regarding the possible implications of COVID-19 at the end of February. We were the first public sector agency to have all of our staff working from home on 16 March 2020, delivering laptops to the homes of staff where required.

Operationally, we understood our staff equipment and internet connectivity needs by surveying our workforce within a week of the shift to remote working. Over 95 per cent of staff responded within one day of the survey being issued. We used collaborative tools on SharePoint to track the purchase of over 300 new items and schedule the delivery of 700 items to our staff, from second monitors, to desks, chairs cables, and keyboards. We used Google to optimise our delivery routes and used our Flexicar app to book delivery vans with no human contact. Group chat was used to ensure our four staff making deliveries to 165 homes, travelling 1 740 kilometres, were able to do so on time and contact-free within two weeks of staff commencing working for home.

We have provided comprehensive COVID-19 updates to staff outlining our response and planned actions and began live streaming our all staff briefings which remain accessible after the event. These measures have ensured we remain well connected with our staff during this challenging time. We used Microsoft Stream to ensure our staff could watch, and re-watch, any live event at any time.

5.2 Improving our communication

As an organisation that works in the public interest, we want all members of the public to be able to access our work and easily understand our findings and recommendations.

All of our staff take part in compulsory training on plain English, and auditors work closely with our communications and publishing teams to prepare materials for publication.

At the start of 2019–20, we made several changes to embed principles of clear communication in our organisation. These included:

- hiring a senior writing coach to help auditors tell the story of their work
- hiring a graphic designer to better present our data and findings
- embedding our editors within audit teams to create a stronger final report.

These changes have led to leaner reports that more directly tell the public what we found and what it means for them. Our audits have found a wide audience, with over 230 000 views of reports on our website in 2019–20, and over 15 000 views of our audit videos. The below graphic shows the audits that had the largest audience engagement over the year.

FIGURE 5A: **Most viewed audits**



We have also updated our written and visual style guide to make our reports more accessible. This has involved making our audit videos clearer and more dynamic and updating our report template.

Changes to our audit videos have already led to positive results—the two most-watched videos of 2019–20 were created in our new style. In addition, our analysis has found that since updating our audit videos at the start of 2020, the average viewer watches 58.2 per cent of the video, compared to 43.5 per cent for videos watched in 2018–19.

In 2020–21, we will introduce further improvements to our reports, including adding an audit 'snapshot', which includes all essential information on one page.

5.3 Workforce productivity

We measure our workforce productivity as the total percentage of available paid staff hours that are charged to our output groups—audit opinions on financial and performance statements, parliamentary reports and parliamentary services.

Our productivity this year was 61 per cent, in line with our target and above our 2018–19 result of 60 per cent. Staff are able to track their productivity and that of their team members via live self-serve business intelligence dashboards.

5.4 Compliance initiatives

We have continued to enhance and mature our governance and compliance systems. We have ensured that we are meeting our obligations under the *Financial Compliance Management Framework*, the *Victorian Government Risk Management Framework*, and the *Victorian Protective Data Security Framework*.

As part of our ongoing commitment to exemplary performance, complaints can be submitted anonymously through our website, or received through direct communication with our audit teams. When receiving a complaint our process is to assess, investigate, respond to and remedy complaints to the best of our ability. In 2019–20 we received three complaints relating to the conduct of an audit, all of which were responded to within the reporting period of 28 days.

We have delivered several initiatives across the organisation to support good governance and improve compliance:

- We launched a self-service business intelligence portal for staff to manage their teams' productivity, production hours and actual costs against budgets for audit projects. We will continue to expand our business intelligence maturity, to provide a broader suite of operational and financial data to support our performance reporting.
- We created a centralised register of all key documents, including policies, procedures, manuals, forms, reports, and plans.
- We updated our public interest disclosure policies and procedures to reflect the amended legislation.
- We updated our fraud risk assessment and continued to execute and implement actions from our refreshed Fraud and Corruption Control Plan.

- We launched new training modules on fraud, corruption and conflicts of interests for all new starters and as a refresher for existing staff.
- We continued to strengthen and mature our risk management and governance frameworks, including strengthening our project management discipline through a centralised project portfolio tool to support effective project risk and issue management, as well as promoting better transparency, reporting and oversight.
- We restructured our Office of the Auditor-General business unit to bring together specialist audit support teams, including Audit Quality, Financial Reporting Advisory, Data Analytics and Systems Assurance, and Data Science.

5.5 Assuring our audit quality

Public interest is served by the consistent performance of quality audit engagements. We are committed to continuous improvement of our systems of quality management in accordance with the six elements of quality provided in the Auditing Standard ASQC1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements*.

FIGURE 5B: **Elements of quality**



Leadership responsibilities

Our strategic management group fosters a continuous improvement culture at VAGO. It is committed to the delivery of effective and efficient audits.

Relevant ethical requirements

We have a continuous program to ensure our staff understand our ethical requirements. Our policies and processes facilitate and monitor our compliance with Australian Auditing Standards and:

- APES 110 *Code of Ethics for Professional Accountants*, which requires a member to act with integrity, objectivity, professional competence, and professional behaviour
- the requirements of the *Code of Conduct for Victorian Public Sector Employees of Special Bodies and Public Administration Act 2004*, which requires us to act with integrity, impartiality, accountability, respect, leadership, and human rights
- the Standing Directions under the *Financial Management Act 1994*, which provide policies on gifts, benefits and hospitality.

Acceptance and continuance of client relationships and specific engagements

We undertake financial and performance audits, assurance reviews and investigations of public sector entities as permitted under our Act. Each year we publish our work program in our Annual Plan.

We are not permitted to undertake non-audit services.

Human resources

We recognise the importance of assigning an engagement team with sufficient capacity and capability aligned to the specific risks/requirements of each engagement. We achieve this through our resourcing strategies, use of experts, recruitment practices and continuing professional development.

Engagement performance appropriate in the circumstances

Our audits are supported by methodologies, policies and tools. We are focused on delivering next-generation audit solutions underpinned by data analytics and innovative audit tools that are compliant with the auditing standards. Our audit processes have clearly defined roles and responsibilities and review and consultation requirements aligned with audit risk.

Monitoring

Our monitoring programs focus on continuous improvement. The results of our quality assurance review programs, client and staff surveys and audit complaints are assessed to identify areas where we can further improve our methodologies, tools, and capabilities of our engagement teams.

Each performance audit engagement leader is now to be subject to an audit review at least once every two years over a four-year cycle. The current review program is in progress.

Each year we conduct a quality review of a targeted selection of completed financial audits as part of our assurance program, to measure our level of compliance with the requirements of applicable Australian Auditing Standards, Australian Accounting Standards and Accounting Professional Ethical Standards.

This year, our reviewers identified that some aspects of two of the twelve audit files reviewed had material process departures from professional standards. While this is not optimal, we note our result is better than industry published rates of 26 per cent of reviewed audit files having material departures from professional standards. Nonetheless we undertook a root cause analysis of the departures and developed and are implementing remediation strategies to address the issues identified.

PAEC external audit

The Audit Act requires an independent performance audit be conducted of our office at least once every four years. The purpose of the audit is to determine whether the Auditor-General and VAGO are achieving their objectives effectively, economically and efficiently and in compliance with all relevant Acts.

PAEC appointed Allen and Clark Consulting to conduct this audit during 2019–20, with the report tabled in Parliament in August 2020.

The report was positive overall, concluding that:

‘The Auditor-General and VAGO are operating in compliance with all relevant Acts of Parliament. Moreover, the Auditor-General and VAGO are, in all material respects, operating effectively, economically and efficiently and achieving their objectives in compliance under the Act’.

A key finding of the audit was that we have a strong cultural understanding of the importance of maintaining independence, which is underpinned by appropriate policies and methodologies. Audit staff were found to conduct audit engagements professionally and respectfully and understood the need to add value by helping to improve the effectiveness and efficiency of the public sector.

Our methodologies for both performance audits and financial audits were found to be comprehensive and regularly reviewed to ensure compliance with the Act and requisite standards. Our systems and processes efficiently and effectively support us to set, manage and monitor audit, divisional and office-wide budgets.

The audit made 31 recommendations. We accepted 24 recommendations in full, three in part, three in principle and did not accept one recommendation. We formally monitor our progress in implementing these recommendations through periodic updates to our Operations Committee and Audit and Risk Committee.

The tabled report is available also on our website at <https://www.audit.vic.gov.au/how-we-are-accountable>.

6.

Performance statement

Declaration in the Performance Statement

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 2019–20 financial year are presented fairly, and are consistent with the Standing Directions under the *Financial Management Act 1994*.

The statement includes the 2019–20 performance measures 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 4 September 2020.



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

Melbourne
4 September 2020



Lucy Smith
Acting Executive Officer
Victorian Auditor-General's Office

Melbourne
4 September 2020

Performance statement

Our performance statement makes reference to the 2019–20 performance measures agreed with the Assistant Treasurer as set out in *Budget Paper No. 3*. In the following tables, we report our actual and comparative results achieved for the financial year against targets for each of our output groups.

FIGURE 6A: **Output Group 1—parliamentary reports and services**

Performance measure	Unit of measure	2018–19 actual	2019–20 target	2019–20 actual	2019–20 per cent variation	Result	Notes
Quantity							
Average cost of parliamentary reports	\$ thousand	527.2	519	473.4	-8.8	✓	3.1
Quality							
Percentage of performance audit recommendations accepted which are reported as implemented by audited agencies	per cent	78.4	80	80.8	1.0	✓	
Overall level of external satisfaction with audit reports and services—parliamentarians	per cent	73.6	85	90.0	5.9	✓	
Timeliness							
Average duration taken to finalise responses to inquiries from Members of Parliament (MPs)	days	17	≤20	15	-	✓	
Average duration taken to produce performance audit parliamentary reports	months	10.1	≤9	10.1	12.2		3.2
Average duration taken to produce financial audit parliamentary reports after balance date	months	4.8	≤5	5.3	6.0		3.3
Cost							
Total output cost	\$ million	16.0	17.4	17.2	-1.1	✓	

Note: ✓ indicates that the target was achieved or exceeded.

Source: VAGO.

FIGURE 6B: **Output Group 2—audit opinions on financial and performance statements**

Performance measure	Unit of measure	2018-19 actual	2019-20 target	2019-20 actual	2019-20 per cent variation	Result	Notes
Quantity							
Average cost of audit opinions issued on the performance statements	\$ thousand	5.2	5.2	5.2	-	✓	
Average cost of audit opinions issued on the financial statements of agencies	\$ thousand	51	52.0	50.2	3.5	✓	
Quality							
External/peer reviews finding no material departures from professional and regulatory standards	per cent	90	100	83.3	16.7		3.4
Proportion of agencies disclosing prior period material errors in financial statements	per cent	0.9	≤5	1.7	-	✓	
Timeliness							
Audit opinions issued within statutory deadlines	per cent	98.3	98	98.1	0.1	✓	
Management letters to agencies issued within established timeframes	per cent	93.7	90	92.3	2.6	✓	
Cost							
Total output cost	\$ million	27.1	28.0	28.0	-	✓	

Note: ✓ indicates that the target was achieved or exceeded.

Source: VAGO.

Notes to the performance statement for the year ended 30 June 2020

1. Basis of preparation

The Victorian Auditor-General's Office must report annually on our 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. While not applicable to us, FRD 27C also requires performance statements

to include the actual results achieved for the reporting period against the corresponding period's predetermined performance targets and indicators.

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, FRD 8D and FRD 27C.

This performance statement includes the performance measures, targets and results of our two performance output groups, with explanations of significant variations between targets and actual results. A variance is deemed significant if it is greater than 5 per cent. 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 of our output groups.

FIGURE 6C: **Output measure definitions**

Performance 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 life cycle cost of parliamentary reports tabled during 2019–20 / Total number of parliamentary reports tabled during 2019–20 (excluding our annual plan and annual report)
Percentage of performance audit recommendations accepted which are reported as implemented by audited agencies	Quality	Tracks our 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 overall level of external satisfaction with our reports and services	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 parliamentarians (MPs)	Timeliness	Tracks how efficient we are at responding to inquiries from respective parliamentarians	Number of days between the date we receive the inquiry and the date we send our response
Average duration taken to produce performance audit parliamentary reports	Timeliness	Tracks how efficient we are at utilising resources to produce our reports	Total number of months between the initiation date and the tabling date of all performance audit parliamentary reports tabled in a financial year divided by the total number of performance audit parliamentary reports tabled in that financial year
Average duration taken to produce financial audit parliamentary reports after balance date	Timeliness	Tracks how efficient we are at utilising resources to produce our reports	Total number of months between the balance sheet date of the sector and the tabling date of all financial audit parliamentary reports tabled in a financial year divided by the total number of financial audit parliamentary reports tabled in that financial year
Total output cost	Cost	Tracks our overall cost-efficiency	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 life cycle cost of audit opinions issued on performance statements during a financial year (actual or estimated) divided by the total number of audit opinions issued on performance statements during that financial year
Average cost of audit opinions issued on the financial statements of agencies	Quantity	Tracks the cost-efficiency of our products	Total life cycle cost of audit opinions issued on financial statements during a financial year divided by the total number of audit opinions issued on financial statements during that financial year
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 a financial year that contain material departures from professional and regulatory standards divided by the total number of financial audit engagement files subject to post-audit

			quality reviews during that financial year
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 a financial year divided by the total number of agencies issued with an audit opinion during that financial year
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 a financial year divided by the total number of audit opinions issued in that financial year
Management letters to agencies issued within established timeframes	Timeliness	Tracks the timeliness of our work	The total number of finalised management letters issued to agencies within 28 days of the audit opinion being issued during a financial year divided by the total number of finalised management letters issued to agencies during that financial year
Total output cost	Cost	Tracks our overall cost-efficiency	The total expenditure allocated to this output group net of recoup of salaries and expenses

Source: VAGO.

3. Explanation of significant variances

- 3.1 The average cost of our parliamentary reports in 2019–20 was \$473 400, which is lower than our target average cost of \$519 000. Our target for 2019–20 included all of the audits scheduled for 2019–20 in our *Annual Plan 2019–20*. However, the actual result reflects the costs of tabled audits only. For the 15 performance audits and one assurance review tabled during 2019–20, the actual average cost was \$536 688, compared to an average budget of \$537 235. While our target average cost for our four reports on the results of financial audits was \$244 817, the actual average cost was \$220 000. The target average cost for the performance audits that were not completed during the year is \$586 571.
- 3.2 We measure the duration of our performance audit parliamentary reports from the formal initiation of the audit to the tabling date. The average duration exceeded our target in 2019–20 because some audits took longer than we planned. The causes of these delays included:
 - agencies requested more time to respond to us due to the impact that COVID-19 had on them
 - we needed to replace audit staff due to unexpected leave and departures

- we needed to undertake additional work either due to new evidence or to obtain sufficient and appropriate audit evidence to support our conclusions and findings.

3.3 We measure the duration of our financial audit parliamentary reports from the balance date of the entities to the report tabling date. This is because the time elapsed after balance date is a good indicator of the timeliness of our reports. We tabled our last two reports, *Results of 2019 Audits: Universities* and *Results of 2019 Audits: Technical and Further Education Institutes* on 30 June 2020. We aim to table these before the end of May each year. This year, our financial audits in these sectors were delayed because we had to resolve accounting issues regarding the treatment of grants and also work with entities to ensure they adequately disclosed the post balance effects of the COVID-19 pandemic on their operations. This had a flow on effect which delayed the finalisation of the two Parliamentary reports.

3.4 We did not meet our target because two of the 12 audit files that were reviewed were found to have some material departures from professional standards. Our external assessors took the view that in these two cases, we did not clearly and sufficiently demonstrate a sufficient basis in our audit documentation on which to form and issue these opinions. While our 2019–20 result is lower than our 2018–19 result, it remains better than published industry rates.

Despite this, we observed a very low disclosure rate of prior period errors by agencies during 2019–20, which indicates that any identified material departures from standards are not leading to significant or systemic material misstatements.

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

Report on the Performance Statement

Conclusion

We have reviewed the accompanying performance statement of the Victorian Auditor-General's Office which includes in respect of the financial year 2019-20 the 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, together with the Declaration by the Auditor-General and Acting Executive Officer.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the performance statement does not fairly represent the measures used and results reported for the financial year 2019-20.

Auditor-General's Responsibility for the Performance Statement

The Auditor-General is responsible for the preparation of the performance statement. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation of the performance statement to ensure that it fairly represents the measures used and results reported, consistent with the *Standing Directions 2018* under the *Financial Management Act 1994*.

Auditor's Responsibility

Our responsibility is to express a conclusion on the performance statement based on our review. We have 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 statement does not fairly represent the measures used and results reported.

ASRE2405 requires that we comply with the ethical requirements relevant the conduct of our review.

A review of the performance statement consists of making enquiries, primarily of persons responsible for the performance measures, 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.



PKF
Melbourne, 4 September 2020



Steven Bradby
Partner

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7.

Our financial management

7.1 Financial year in review

Our primary financial objective is to provide effective and quality services to Parliament and our public sector fee-paying clients, while balancing the need to be fiscally responsible in minimising our costs.

Our financial performance and position are generally consistent year on year, given that the nature, scope and scale of our business is embedded legislatively and does not change substantially. This year's results reflect the ongoing development of our organisational transformation activities, while also being impacted by the COVID-19 pandemic and new Australian Accounting Standards effective for the first time.

FIGURE 7A: **Five-year financial summary to 30 June 2020**

	2019–20 (\$ thousand)	2018–19 (\$ thousand)	2017–18 (\$ thousand)	2016–17 (\$ thousand)	2015–16 (\$ thousand)	Movement from 2018–19 to 2019–20 (\$ thousand)	Percentage change from 2018–19 to 2019–20
Total revenue	45 639	44 831	45 276	43 763	41 384	808	1.8%
Total expenses	45 252	43 216	43 263	46 907	41 301	2 036	4.7%
Surplus/deficit	387	1 615	2 013	(3 144)	83	(1 228)	(76.1%)
Financial assets	21 099	20 608	19 955	25 619	16 962	491	2.4%
Non-financial assets	13 649	5 639	5 968	6 463	1 386	8 010	142.0%
Total assets	34 748	26 247	25 923	32 082	18 348	8 501	32.4%
Total liabilities	19 881	12 399	18 360	26 532	9 654	7 482	60.3%
Net assets	14 867	13 848	7 563	5 550	8 694	1 019	7.4%

Surplus/deficit

We aim to break even over the medium term, acknowledging deficits may occur due to technological investment or updates to our audit methodologies. These deficits are funded through our working capital reserves, which are replenished in years with surpluses.

This year we made a small surplus, and our five-year average result shows that we continue to operate in a fiscally responsible and sustainable manner.

FIGURE 7B: **Surplus/deficit as percentage of total revenue**

2019–20	2018–19	2017–18	2016–17	2015–16	Five-year average
0.8%	3.6%	4.4%	(7.2%)	0.2%	0.4%

This year's surplus was predominately attributed to some cost savings in general office expenditure as working from home arrangements commenced in March 2020 due to COVID-19; offset by additional depreciation and interest costs recognised as a result of AASB 16 *Leases* becoming effective 1 July 2019, and by our continued investment in IT solutions.

COVID-19 impact

In response to the COVID-19 pandemic, our office implemented working from home arrangements on 16 March 2020 and delivered 700 existing and new items of IT and office equipment to 165 homes, at a total cost of \$14 500. Further, as part of our ongoing support to staff during working from home arrangements, extended school holidays and remote learning arrangements, we provided 20 days of special leave for staff to utilise. At 30 June 2020, 1 766 hours of special leave had been utilised, at an average of 33 hours or 4.3 days per employee.

FIGURE 7C: **Impact of COVID-19**

Item	2019–20 (\$ thousand)
IT equipment and home office costs	10
Delivery and travel costs	4
Special leave (1 776 hours)	114
Total cost	128

Net assets

We continue to be in a strong financial position, driven by our historical operating surpluses and improved fiscal management. Working capital is sufficient to fund our operations over the forward estimates period.

FIGURE 7D: **Net assets as a percentage of total assets**

2019–20	2018–19	2017–18	2016–17	2015–16	Five-year average
42.8%	52.8%	29.2%	17.3%	47.4%	37.9%

The future

While we budget for breakeven over the medium term, we have budgeted for a deficit in 2020–21, as we realise the ongoing impacts of COVID-19 on our audit fees and staffing requirements, and in continuing to implement our organisational transformation activities and financial audit replacement toolset. We note however that our budget is contingent on the annual State Budget for 2020–21 process, which has been delayed.

7.2 Financial performance

Operating statement

Our net financial result for the year was a surplus of \$387 000, compared with a surplus of \$1.6 million in 2018–19.

FIGURE 7E: **Revenues and expenses**

	2019–20 (\$ thousand)	2018–19 (\$ thousand)	2017–18 (\$ thousand)	2016–17 (\$ thousand)	2015–16 (\$ thousand)	Movement from 2018–19 to 2019–20 (\$ thousand)	Percentage change from 2018–19 to 2019–20
General appropriation	17 712	17 004	16 589	16 184	15 789	708	4.2%
Special appropriation	587	577	569	590	576	10	1.8%
Section 29	27 183	27 061	27 942	26 586	24 732	122	0.5%
Other	157	189	176	403	287	(32)	(17.1%)
Total revenue	45 639	44 831	45 276	43 763	41 384	808	1.8%
Total expenses	45 252	43 216	43 263	46 907	41 301	2 036	4.7%
Surplus/(deficit)	387	1 615	2 013	(3 144)	83	(1 228)	(76.1%)

Revenue

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

Our total revenue steadily increased over the past five years, reflecting indexation of our general appropriation and section 29 revenue from audit engagement fees.

Other revenue relates to the reimbursement by ACAG of our costs for its executive director.

Expenses

We spend the majority of our budget on employee costs and contracted audit service providers whom we engage to assist in completing our annual financial audits, or as subject matter experts.

FIGURE 7F: **Expenses from ordinary activities**

	2019–20 (\$ thousand)	2018–19 (\$ thousand)	2017–18 (\$ thousand)	2016–17 (\$ thousand)	2015–16 (\$ thousand)	Movement from 2018–19 to 2019–20 (\$ thousand)	Percentage change from 2018–19 to 2019–20
Depreciation	2 101	804	839	583	657	1 297	161.3%
Employee expenses	24 699	23 838	23 801	27 809	23 715	861	3.6%
Contract audit services	13 309	12 825	12 547	12 154	11 893	484	3.8%
Rental expenses—accommodation	519	1 946	1 864	1 530	1 520	(1 427)	(73.3%)
Other expenses	4 624	3 803	4 212	4 831	3 516	821	21.6%
Total expenses	45 252	43 216	43 263	46 907	41 301	2 036	4.7%

Our employee expenses were relatively consistent with prior year, impacted by additional IT contractors utilised for organisational transformational activities, a lower overall headcount and pay increases.

The increase in our contractor expenditure for audit service providers of \$13.3 million compared with last year (\$12.8 million) has arisen in part from the expedited payment of our audit service providers for work carried out up to 30 June, in light of the COVID-19 pandemic.

Our depreciation expense has increased due to recognition of right-of-use assets in line with the adoption of AASB 16 *Leases* in 2019–20, which also resulted in an offsetting reduction in our rental expenditure.

The 21.6 per cent movement in remaining expenses reflects the organisation's continuing transformation activities, reflecting an increased investment in IT solutions.

7.3 Financial position

Balance sheet

Our financial position at 30 June 2020 continues to be strong, with total assets of \$34.7 million, total liabilities of \$19.9 million and net assets of \$14.9 million.

FIGURE 7G: **Assets and liabilities movement**

	2019–20 (\$ thousand)	2018–19 (\$ thousand)	2017–18 (\$ thousand)	2016–17 (\$ thousand)	2015–16 (\$ thousand)	Movement from 2018–19 to 2019–20 (\$ thousand)	Percentage change from 2018–19 to 2019–20
Financial assets	21 099	20 608	19 955	25 619	16 962	491	2.4%
Non-financial assets	13 649	5 639	5 968	6 463	1 386	8 010	142.0%
Total assets	34 748	26 247	25 923	32 082	18 348	8 501	32.4%
Total liabilities	19 881	12 399	18 360	26 532	9 654	7 482	60.3%
Net assets	14 867	13 848	7 563	5 550	8 694	1 019	7.4%

Assets

Our total financial assets slightly increased by \$491 000 (2.4 per cent) attributed to the State Administration Unit receivable balance—i.e. our operating surpluses, offset by a decrease in payables.

The recognition of right-of-use assets in line with the adoption of AASB 16 *Leases* from 1 July 2019 has resulted in the increase in non-financial assets in 2019–20.

Liabilities

Our liabilities have increased by \$7.5 million (60.3 per cent), due to the corresponding lease liability for the right-of-use assets on adoption of AASB 16 *Leases*. This is partially offset by a lower payables balance through our audit service providers bringing forward their invoicing due to COVID-19 and the timing of our payment runs.

7.4 Cash flows

Cash Flow Statement

All bank balances are transferred daily to the state government as part of our government banking arrangement.

FIGURE 7H: **Cash Flow Statement**

	2019–20 (\$ thousand)	2018–19 (\$ thousand)	Movement from 2018–19 to 2019–20 (\$ thousand)	Percentage change from 2018–19 to 2019–20
Net cash flows from/(used in) operating activities	1 057	(4 230)	5 287	(125.0%)
Net cash flows from/(used in) investing activities	(10 528)	(461)	(10 067)	2 184.4%
Net cash flows from/(used in) financing activities	9 470	4 691	(4 779)	101.9%
Net increase/(decrease) in cash held	(1)	-	(1)	-
Cash at the beginning of the financial year	1	1	-	-
Cash at the end of the financial year	-	1	(1)	(100.0%)

Our net surplus for the year under an accrual basis is \$387 000. The net cash outflow from investing activities of \$10.5 million was due to the capitalisation of right-of-use assets under AASB 16 *Leases*.

7.5 Other financial matters

Financial report

This annual report complies with 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.

Consultancies

In 2019–20, we engaged five consultants that had total fees payable greater than \$10 000 (excluding GST). We also engaged one consultant where the total fee payable was less than \$10,000, with a total cost of \$1 500 (excluding GST).

FIGURE 7I: **Consultancies—payments in excess of \$10 000 (excluding GST)**

Consultant	Purpose of consultancy	Start date	End date	Total approved project fee (\$ thousand)	Expenditure 2019–20 (\$ thousand)	Future expenditure (\$ thousand)
Cube Group	Business continuity plan—refresh and testing	1-Nov-19	10-Jan-20	16	16	-
Dear Watson	Financial and operational dashboard reporting projects	8-Jul-19	20-Jan-20	39	39	-
Grosvenor Procurement Advisory	Procurement policy refresh	31-May-19	16-Sep-19	21	12	-

Consultant	Purpose of consultancy	Start date	End date	Total approved project fee (\$ thousand)	Expenditure 2019–20 (\$ thousand)	Future expenditure (\$ thousand)
ORIMA Research Pty Ltd	Parliamentarian surveys	25-Mar-19	2-Nov-19	23	23	-
	Client satisfaction surveys	31-Jan-20	11-Dec-20	122	95	27
Qtec Systems	Microsoft Teams integration	31-Oct-19	31-Jan-21	14	14	-

Performance audit consultants

In 2019–20, we paid \$934 000 (\$1.3 million in 2018–19) to 15 consultants for performance audit related services.

FIGURE 7J: **Payments to performance audit consultants**

Performance audit consultants	2019–20 (\$ thousand)	2018–19 (\$ thousand)
4 Consulting Pty Ltd	25	-
Aski	-	105
Aspex Consulting	134	-
Cathy Edmonds	-	11
Dr Penelope Mitchell	-	17
Eileen Hayes	-	16
Finity Consulting Pty Ltd	-	107
Frontier Economics Pty Ltd	213	43
GHD Pty Ltd	-	245
Hivint Pty Ltd	21	83
Monash University	-	29
Notitia Pty Ltd	-	11
O'Connor Marsden & Associates Pty Ltd	140	102
Paul Tridgell Pty Ltd	-	42
Paxton Partners	66	-
Pitt Group	63	-
Pivotal Point Consulting Services	140	-
Privasec Pty Ltd	-	58
Protiviti Pty Ltd	-	167
Rail Advisory Services Pty Ltd	-	29

Performance audit consultants	2019–20 (\$ thousand)	2018–19 (\$ thousand)
Risk Insights Pty Ltd	93	40
Security Infrastructure Solutions	-	150
TDF Advisory Services Pty Ltd	13	12
Other—5 service providers (7 in 2018–19)	26	23
Total	934	1 290

Financial audit service providers and consultants

In 2019–20, we paid \$12.4 million (\$11.5 million in 2018–19) to 29 audit firms and consultants that provided financial statement audit related services.

FIGURE 7K: **Payments to financial audit service providers and consultants**

Financial audit service provider and consultants	2019–20 (\$ thousand)	2018–19 (\$ thousand)
Accounting and Auditing Solutions	71	72
BDO East Coast Partnership	74	25
Crowe Horwath	879	866
Crowe Horwath Albury	431	391
Crowe Horwath Vic	493	560
Crowe Horwath West Vic	122	56
Davidsons Assurance Services Pty Ltd	43	39
Deloitte Access Economics Pty Ltd	112	48
Deloitte Actuaries & Consultants Ltd	-	15
DFK Kidsons	271	259
DMG Audit and Advisory	347	301
Ernst & Young	1 254	1 276
Frontier Economics Pty Ltd	65	-
HLB Mann Judd (VIC Partnership)	2 615	2 491
Johnsons MME	519	426
KPMG	130	131
LD Assurance	94	108
McLaren Hunt	511	432
McLean Delmo Bentleys Pty Ltd	589	490

Financial audit service provider and consultants	2019–20 (\$ thousand)	2018–19 (\$ thousand)
MGR Accountants Pty Ltd	15	-
Moore Stephens Audit (Vic)	51	29
Pitcher Partners Corporate Pty Ltd	48	-
PPT Professional Pty Ltd	54	25
RSD Audit	1 087	1 095
RSM Australia Pty Ltd	2 473	2 370
Shine Wing Australia	-	11
Other—5 service providers (6 in 2018–19)	27	19
Total	12 375	11 535

Information and communications technology (ICT) expenditure

In 2019–20, we had ICT expenditure of \$2.4 million (\$2.1 million in 2018–19).

FIGURE 7L: **ICT expenditure**

Expenditure type	2019–20 (\$ thousand)	2018–19 (\$ thousand)
Business as usual (BAU) ICT expenditure	2 124	1 465
Non-BAU ICT expenditure	305	608
• Operational expenditure	294	200
• Capital expenditure	11	408

ICT expenditure reflects costs in providing business-enabling ICT services and comprises BAU ICT expenditure and non-BAU ICT expenditure. Non-BAU ICT expenditure relates to extending or enhancing our current ICT capabilities while BAU ICT expenditure is all remaining ICT expenditure (primarily ongoing activities to operate and maintain existing ICT capability).

Whole-of-government financial statements

Figure 7M is a comprehensive operating statement for the parliament portfolio that provides a comparison between our actual financial statements and the budgeted financial information as published in the *Statement of Finances 2019–20: Budget Paper No.5*. The financial data has been prepared on a consolidated basis and includes all general government sector entities within the portfolio. Financial transactions and balances are classified into either controlled or administered categories, as directed by the Treasurer in the context of the published statements in *Budget Paper No.5*.

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 7M: **Comprehensive operating statement for parliament (including VAGO)**

	<i>Budget</i>			<i>Actual</i>	<i>Variance⁽ⁱⁱ⁾</i>
	Parliament (excluding VAGO) (\$ thousand)	VAGO (\$ thousand)	Parliament (including VAGO) ⁽ⁱ⁾ (\$ thousand)	VAGO (\$ thousand)	VAGO (\$ thousand)
Income from transactions					
Output appropriations	149 612	44 836	194 448	44 895	59
Special appropriations	49 055	587	49 642	587	-
Sale of goods and services	27 437	-	27 437	117	117
Grants	28	-	28	-	-
Fair value of services received free of charge or for nominal consideration	-	46	46	40	(6)
Total income from transactions	226 132	45 469	271 601	45 639	170
Expenses from transactions					
Employee benefits	115 189	26 090	141 279	24 699	1 391
Depreciation and amortisation	26 337	2 095	28 432	2 101	(6)
Interest expense	1 340	402	1 742	405	(3)
Capital asset charge	6 235	330	6 565	330	-
Payments into consolidated fund	27 279	-	27 279	-	-
Other operating expenses	49 594	16 552	66 146	17 664	(1 112)
Total expenses from transactions	225 974	45 469	271 443	45 199	270
Net result from transactions (net operating balance)	158	-	158	440	440

Note:

(i) Budget figures are as published in Budget Paper No. 5 (shown in \$ millions).

(ii) For income items and net result from transactions, the variance is positive if actual exceeds budget. For expense items, the variance is positive if budget exceeds actual.

7.6 Financial statements

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Declaration in the financial statements

The attached financial statements for the Victorian Auditor-General's Office have been prepared in accordance with Direction 5.2 of the Standing Directions 2018 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 2020 and financial position of the Victorian Auditor-General's Office at 30 June 2020.

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 4 September 2020.



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

Melbourne
4 September 2020



Anh Ha
Chief Financial Officer
Victorian Auditor-General's Office

Melbourne
4 September 2020

Independent Auditor's Report

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

Opinion

We have audited the accompanying financial report of the Victorian Auditor-General's Office, which comprises the balance sheet as at 30 June 2020, the comprehensive operating statement, statement of changes in equity, and cash flow statement for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the Declaration in the Financial Statements.

In our opinion the financial report presents fairly, in all material respects, the financial position of the Victorian Auditor-General's Office as at 30 June 2020 and of its financial performance for the year then ended in accordance with Australian Accounting Standards and the financial reporting requirements of 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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* (including Independence Standards) ('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.

Other information

The Auditor-General is responsible for the other information. The other information comprises the information included in the Victorian Auditor-General's Office's annual report for the year ended 30 June 2020 but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly 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 this other information, we are required to report that fact. We have nothing to report in this regard.

The Auditor-General's 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 the financial reporting requirements of the *Financial Management Act 1994*, and for such internal control as the Auditor-General determines is necessary to enable the preparation and fair presentation 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 an intention exists to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities 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 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 the financial report.

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PKF Melbourne Audit & Assurance Pty Ltd is a member firm of the PKF International Limited family of legally independent firms and does not accept any responsibility or liability for the actions or inactions of any individual member or correspondent firm or firms.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Auditor-General.
- Conclude on the appropriateness of the Auditor-General's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Auditor-General regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Auditor-General with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.



PKF

Melbourne, 4 September 2020



Steven Bradby

Partner

Comprehensive Operating Statement for the financial year ended 30 June 2020

	Note	2019–20 (\$ thousand)	2018–19 (\$ thousand)
Income from transactions			
Output appropriations	2.1	44 895	44 065
Special appropriations	2.1	587	577
Sale of services and other income	2.2	157	189
Total income from transactions		45 639	44 831
Expenses from transactions			
Employee expenses	3.1.1	24 699	23 838
Contracted audit services	3.2	13 309	12 825
Accommodation	3.3	519	1 946
Depreciation	5.3	2 101	804
Interest expense		405	17
Consultants and contractors		838	544
Other operating expenses	3.4	3 328	3 096
Total expenses from transactions		45 199	43 070
Net result from transactions (net operating balance)		440	1 761
Other economic flows included in net result			
Net gain/(loss) on non-financial assets	7.1.1	(5)	3
Other gains/(losses) from other economic flows		(48)	(149)
Total other economic flows included in net result		(53)	(146)
Net result		387	1 615
Comprehensive result		387	1 615

The accompanying notes form part of these financial statements.

Balance Sheet as at 30 June 2020

	Note	2019–20 (\$ thousand)	2018–19 (\$ thousand)
Assets			
Financial assets			
Cash	7.1	-	1
Receivables	6.1	21 099	20 607
Total financial assets		21 099	20 608
Non-financial assets			
Plant and equipment	5.1	3 616	4 656
Intangible assets	5.2	299	408
Right-of-use assets	5.5.1	9 181	-
Other non-financial assets	6.2	553	575
Total non-financial assets		13 649	5 639
Total assets		34 748	26 247
Liabilities			
Payables	6.3	5 141	6 332
Lease liabilities	5.5.3	9 646	176
Employee related provisions	3.1.2	5 094	4 869
Other provisions	6.4	-	1 022
Total liabilities		19 881	12 399
Net assets		14 867	13 848
Equity			
Accumulated surplus		9 937	8 883
Contributed capital		4 930	4 965
Net worth		14 867	13 848

The accompanying notes form part of these financial statements.

Cash Flow Statement for the financial year ended 30 June 2020

	Note	2019–20 (\$ thousand)	2018–19 (\$ thousand)
Cash flows from operating activities			
Receipts			
Appropriation receipts from government		47 723	46 648
Receipts from other entities		117	151
Total receipts		47 840	46 799
Payments			
Payments to suppliers and employees		(45 364)	(50 020)
Goods and Services Tax paid to the ATO ⁽ⁱ⁾		(684)	(628)
Capital asset charge payments		(330)	(376)
Interest and other costs of finance paid		(405)	(5)
Total payments		(46 783)	(51 029)
Net cash flows from/(used in) operating activities	7.1.1	1 057	(4 230)
Cash flows from investing activities			
Purchases of non-financial assets		(10 633)	(481)
Sales of non-financial assets		105	20
Net cash flows from/(used in) investing activities		(10 528)	(461)
Cash flows from financing activities			
Owner contributions—appropriation for capital expenditure purposes	2.1	-	4 670
Proceeds from leases		10 454	72
Repayment of principal portion of lease liabilities ⁽ⁱⁱ⁾		(984)	(51)
Net cash flows from/(used in) financing activities		9 470	4 691
Net increase/(decrease) in cash held		(1)	-
Cash at the beginning of the financial year		1	1
Cash at the end of the financial year	7.1	-	1

The accompanying notes form part of these financial statements

Note:

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

(ii) Referred to in 2018–19 as finance leases.

Statement of Changes in Equity for the financial year ended 30 June 2020

	Accumulated surplus (\$ thousand)	Contributed capital (\$ thousand)	Total
Balance at 1 July 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
Change in accounting policy (due to AASB 16) ⁽ⁱ⁾	667	-	667
Restated balance at 1 July 2019	9 550	4 965	14 515
Net result for the year	387	-	387
Capital appropriations ⁽ⁱⁱ⁾	-	(35)	(35)
Balance at 30 June 2020	9 937	4 930	14 867

The accompanying notes form part of these financial statements.

Note:

(i) Upon adoption of AASB 16 Leases, the provision for lease rentals, provision for make-good and leasehold improvements were transferred to equity. They related to the lease for the office's premises, which was formerly treated as an operating lease. The provisions and leasehold improvements are no longer required, as the office now recognises a right-of-use asset and a right-of-use lease liability. See Note 5.5 for further details.

(ii) Capital appropriation was utilised to account for the write-off of non-financial assets written-off during the year. See Note 5.1.1 for further details.

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* (the Act), 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.

1.1 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.

1.2 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*.

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 is 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, conference fees and addition to net assets 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 Annual appropriation (\$ thousand)</i>	<i>Financial Management Act 1994 Section 29 (\$ thousand)</i>	<i>Total Parliamentary authority (\$ thousand)</i>	<i>Appropriations applied (\$ thousand)</i>	<i>Variance⁽ⁱⁱⁱ⁾</i>
2019–20 controlled					
Provision for outputs	17 712	27 124	44 836	44 895	(59)
Conference fees ⁽ⁱ⁾	-	180	180	-	180
Total 2019–20	17 712	27 304	45 016	44 895	121
2018–19 controlled					
Provision for outputs	17 004	26 462	43 466	44 065	(599)
Addition to net assets ⁽ⁱⁱ⁾	4 670	-	4 670	4 670	-
Total 2018–19	21 674	26 462	48 136	48 735	(599)

Note:

(i) In 2019–20, VAGO received an appropriation of \$180 000 under a Net Appropriation Agreement, being funding designated for the IMPACT 2020 conference. Under an agreement with the Victorian Government, this was scheduled to be used to pay for expenses related to the conference, by returning conference fees collected on behalf of the government, to VAGO under a section 29 agreement. However, the conference was cancelled due to the impact of COVID-19 and the funds were not required.

(ii) 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.

(iii) The variance from estimate of 'Provision for outputs' in 2018–19 and 2019–20 was due to the variability in financial audit fees charged and retained as per the section 29 agreement. The variance from estimate of 'Conference fees' in 2019–20 was due to the cancellation of the IMPACT 2020 conference.

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

Authority	Purpose	Appropriations applied	
		2019–20 (\$ thousand)	2018–19 (\$ thousand)
The Constitution Act 1975, section 94A(6)	Costs associated with the Auditor-General	587	577

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

	2019–20 (\$ thousand)	2018–19 (\$ thousand)
Fee for services		
Audit fees	27 124	26 462
Conference fees	180	-
Total annotated income agreements	27 304	26 462

VAGO has applied AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities* 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.

Policy applicable before 1 July 2019

Appropriations

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

Output appropriations: Income from the outputs VAGO provides to Parliament is recognised when the outputs have been delivered and the Assistant Treasurer and the Treasurer have certified delivery of the outputs in accordance with specified performance criteria as outlined in the Department of Treasury and Finance 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.

Policy applicable after 1 July 2019

Appropriations

In accordance with AASB 1058 and FRD 13 *Disclosure of Parliamentary Appropriations (Appendix 1)*, there has been no change in the recognition of revenue or disclosure requirements in respect to output and special appropriations.

Annotated income agreements

Financial audit fees are measured based on the consideration specified in the service agreement with the audit client.

VAGO recognises revenue when it transfers control of the service to the audit client, (i.e. as the performance obligations for the services to the audit client are satisfied). As services provided are simultaneously received and consumed, revenue is recognised progressively over time in accordance with the terms of the service agreement.

There has been no change in the recognition of revenue from the rendering of services as a result of the adoption of AASB 15.

2.2 Sale of services and other income

	2019–20 (\$ thousand)	2018–19 (\$ thousand)
Sale of services ⁽ⁱ⁾	117	151
Fair value of services received free of charge or for nominal consideration ⁽ⁱⁱ⁾	40	38
Total sale of services and other income	157	189

Note:

(i) Arises from the recovery of costs of executive director 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

	Note	2019–20 (\$ thousand)	2018–19 (\$ thousand)
Salaries and wages, annual leave and long service leave ⁽ⁱ⁾		22 725	21 943
Defined contribution superannuation expense	3.1.3	1 725	1 696
Defined benefit superannuation expense	3.1.3	45	62
Termination benefits		204	137
Total employee expenses		24 699	23 838

Note:

(i) In response to the COVID-19 pandemic and to support to staff during working from home arrangements, extended school holidays and home schooling, we provided an additional 20 days of special leave for staff to utilise. At 30 June 2020, 1 766 hours of special leave was utilised, at a total cost of \$114 000.

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

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.

	2019–20 (\$ thousand)	2018–19 (\$ thousand)
Current provisions		
Annual leave		
Unconditional and expected to settle within 12 months	1 791	1 094
Unconditional and expected to settle after 12 months	-	303
Total annual leave	1 791	1 397
Long service leave		
Unconditional and expected to settle within 12 months	386	441
Unconditional and expected to settle after 12 months	1 887	2 025
Total long service leave	2 273	2 466
Provision for on-costs		
Unconditional and expected to settle within 12 months	317	237
Unconditional and expected to settle after 12 months	289	365
Total provision for on-costs	606	602
Total current provisions for employee benefits	4 670	465
Non-current provisions		
Employee benefits	368	349
On-costs	56	55
Total non-current provisions for employee benefits	424	404
Total provisions for employee benefits	5 094	4 869
Reconciliation of movement in on-cost provision		
Opening balance	657	
Additional provisions recognised	5	
Closing balance	662	
Current	606	
Non-current	56	
Total provisions for on-costs	662	

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.

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.

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.

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.

	<i>Paid contribution for the year</i>		<i>Contribution outstanding at year end</i>	
	<i>2019–20</i> <i>(\$ thousand)</i>	<i>2018–19</i> <i>(\$ thousand)</i>	<i>2019–20</i> <i>(\$ thousand)</i>	<i>2018–19</i> <i>(\$ thousand)</i>
Defined benefit plans⁽ⁱ⁾				
State Superannuation Fund—revised and new	44	62	1	-
Defined contribution plans				
VicSuper	1 009	1 092	28	22
Other employee nominated plans	702	629	19	13
Total⁽ⁱⁱ⁾	1 755	1 783	48	35

Note:

(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 2019, and accruals carried forward at 30 June 2020, 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

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 Accommodation

Accommodation expenses represent common tenancy costs related to VAGO's accommodation. They are recognised as an expense in the reporting period in which they are incurred.

The amount disclosed as expenses for 2018–19 included operating lease payments, which were recognised on a straight-line basis over the lease term. From 1 July 2019, such payments are applied as a reduction of the right-of-use lease liability, following the adoption of AASB 16 *Leases*.

3.4 Other operating expenses

	2019–20 (\$ thousand)	2018–19 (\$ thousand)
Training	574	628
Recruitment	304	269
IT	1 451	975
Outsourced internal audit fees	137	190
Motor vehicles	137	96
Travel	135	192
Other office expenses	590	746
Total other operating expenses	3 328	3 096

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 48 to 55 in the Report of Operations.

Departmental Outputs – Controlled income and expenses for the year ended 30 June 2020

	<i>Parliamentary reports</i> (\$ thousand)		<i>Financial statement audit and assurance reports</i> (\$ thousand)		<i>Total</i> (\$ thousand)	
	2019–20	2018–19	2019–20	2018–19	2019–20	2018–19
Income from transactions						
Parliamentary output appropriations	17 712	17 004	27 183	27 061	44 895	44 065
Parliamentary special appropriations	294	288	293	289	587	577
Sale of services	55	72	62	79	117	151
Fair value of services received free of charge or for nominal consideration	20	19	20	19	40	38
Total income from transactions	18 081	17 383	27 558	27 448	45 639	44 831
Expenses from transactions						
Employee expenses	12 661	11 517	12 038	12 321	24 699	23 838
Contracted audit services	934	1 290	12 375	11 535	13 309	12 825
Depreciation	1 066	408	1 035	396	2 101	804
Interest expense	208	10	197	7	405	17
Capital asset charge	168	191	162	185	330	376
Other operating expenses	2 173	2 609	2 182	2 601	4 355	5 210
Total expenses from transactions	17 210	16 025	27 989	27 045	45 199	43 070

	<i>Parliamentary reports</i> (\$ thousand)		<i>Financial statement audit and assurance reports</i> (\$ thousand)		<i>Total</i> (\$ thousand)	
	2019–20	2018–19	2019–20	2018–19	2019–20	2018–19
Net result from transactions (net operating balance)	871	1 358	(431)	403	440	1 761
Other economic flows included in net result						
Net gain/(loss) on non-financial assets	(3)	1	(2)	2	(5)	3
Other gains/(losses) from other economic flows	(25)	(78)	(23)	(71)	(48)	(149)
Total other economic flows included in net result	(28)	(77)	(25)	(69)	(53)	(146)
Net result	843	1 281	(456)	334	387	1 615
Comprehensive result gain/(loss)	843	1 281	(456)	334	387	1 615

Departmental Outputs—Controlled assets and liabilities as at 30 June 2020

	<i>Parliamentary reports</i> (\$ thousand)		<i>Financial statement audit and assurance reports</i> (\$ thousand)		<i>Total</i> (\$ thousand)	
	2019–20	2018–19	2019–20	2018–19	2019–20	2018–19
Assets						
Financial assets	8 040	7 678	13 059	12 930	21 099	20 608
Non-financial assets	5 163	2 101	8 486	3 538	13 649	5 639
Total assets	13 203	9 779	21 545	16 468	34 748	26 247
Liabilities						
Total liabilities	7 577	4 620	12 304	7 779	19 881	12 399
Net assets	5 626	5 159	9 241	8 689	14 867	13 848

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 2020

	2019–20 (\$ thousand)	2018–19 (\$ thousand)
Administered income from transactions		
Reimbursement of audit costs charged	27 184	27 071
Total administered income from transactions	27 184	27 071
Administered expenses from transactions		
Payments into the Consolidated Fund	27 149	27 071
Total administered expenses from transactions	27 149	27 071
Total administered net result from transactions (net operating balance)	35	-
Administered other economic flows included in administered net result		
Net gain / (loss) on non-financial assets	(35)	-
Total administered comprehensive result	-	-
Administered financial assets		
Receivables ⁽ⁱ⁾	4 744	5 425
Total administered financial assets	4 744	5 425
Administered non-financial assets		
Work in progress	2 727	2 726
Total administered non-financial assets	2 727	2 726
Total administered assets	7 471	8 151
Administered liabilities		
Amounts owing to the state	7 471	8 151
Total administered liabilities	7 471	8 151
Total administered net assets	-	-

Note:

(i) Receivables comprise financial statement audit debtors and are deemed wholly collectable. Receivables comprise of debtors falling due as follows:

	2019–20 (\$ thousand)	2018–19 (\$ thousand)
Current	3 591	5 009
Overdue between 30 to 60 days	898	280
Overdue beyond 61 to 90 days	203	120
Overdue beyond 90 days	52	16
Total receivables	4 744	5 425

5. Key assets available to support our 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.

Plant and equipment

Items of plant and equipment (PE) 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.

The initial cost for non-financial physical assets under a finance lease (under AASB 117 *Leases* until 30 June 2019) 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.

Intangible assets

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:

- the technical feasibility of completing the intangible asset so that it will be available for use
- an intention to complete the intangible asset and use it
- the ability to use the intangible asset
- the intangible asset will generate probable future economic benefits
- the availability of adequate technical, financial and other resources to complete the development and to use the intangible asset
- 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 amortisation and accumulated impairment losses.

Fair value measurement

Where the assets included in this section are carried at fair value, additional information is disclosed in Note 5.4 in connection with how those fair values were determined.

Purpose groups

Under FRD 103H *Non-financial physical assets*, PE 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.

In accordance with Government purpose classifications, VAGO PE is used for the purpose of public administration.

5.1 Plant and equipment

	<i>Gross carrying amount (\$ thousand)</i>		<i>Accumulated depreciation (\$ thousand)</i>		<i>Net carrying amount (\$ thousand)</i>	
	2019–20	2018–19	2019–20	2018–19	2019–20	2018–19
Leasehold improvements	4 750	6 011	(1 462)	(1 894)	3 288	4 117
Furniture, fittings and equipment	140	458	(86)	(370)	54	88
Computer software and equipment	907	2 461	(633)	(2 185)	274	276
Motor vehicles—leased ⁽ⁱ⁾	-	231	-	(56)	-	175
Total plant and equipment	5 797	9 161	(2 181)	(4 505)	3 616	4 656

Note:

(i) Following the adoption of AASB 16 Leases from 1 July 2019, motor vehicles under finance leases have been reclassified as right-of-use assets. See Note 5.5 for further details.

5.1.1 Reconciliation of movements in carrying amount of plant and equipment

	Leasehold improvements (\$ thousand)	Furniture, fittings and equipment (\$ thousand)	Computer software and equipment (\$ thousand)	Motor vehicles—leased (\$ thousand)	Total (\$ thousand)
Balance at 1 July 2018	4 638	122	420	155	5 335
Additions	-	-	20	72	92
Disposals	-	-	-	(16)	(16)
Depreciation	(521)	(34)	(164)	(36)	(755)
Balance at 30 June 2019	4 117	88	276	175	4 656
Additions	-	-	167	-	167
Disposals	-	(5)	(29)	-	(34)
Transfer to right-of-use assets	-	-	-	(175)	(175)
Transfer to opening accumulated surplus due to AASB 16	(356)	-	-	-	(356)
Depreciation	(473)	(29)	(140)	-	(642)
Balance at 30 June 2020	3 288	54	274	-	3 616

5.2 Intangible assets

	Gross carrying amount (\$ thousand)		Accumulated depreciation (\$ thousand)		Net carrying amount (\$ thousand)	
	2019–20	2018–19	2019–20	2018–19	2019–20	2018–19
Intangible assets	1 147	2 213	(848)	(1 805)	299	408
Total intangible assets	1 147	2 213	(848)	(1 805)	299	408

5.2.1 Reconciliation of movements in carrying amount of intangible assets

	Total (\$ thousand)
Balance at 1 July 2018	68
Additions	389
Depreciation	(49)
Balance at 30 June 2019	408
Additions	12
Depreciation	(121)
Balance at 30 June 2020	299

5.3 Depreciation and amortisation

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. Depreciation begins when the intangible 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.

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 and right-of-use assets 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, fittings and equipment	2–10
Computer software and equipment	3–4
Intangible assets	3
Leasehold improvements	2–10

The depreciation charge for the period is included in Note 5.1.1, Note 5.2.1 and Note 5.5.2.

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 *Impairment of Assets* 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.

Categorisation of assets

During 2019–20, a project was undertaken to streamline the fixed asset register. The asset categories previously disclosed as 'Furniture and fittings' and 'Office

equipment' have been amalgamated as the single category 'Furniture, fittings and equipment'. The asset categories previously disclosed as 'Computer software' and 'Computer hardware' have been amalgamated as the single category 'Computer software and equipment'. Several obsolete assets were also removed from the register, resulting in movements in disposals as reported in Note 5.1.1.

5.4 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
- other assets and liabilities carried at amortised cost.

Fair value hierarchy

In determining fair values, VAGO uses only Level 3 valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable. Significant unobservable inputs have remained unchanged since June 2019.

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.

5.4.1 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.

5.4.2 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. Note 5.1.1 provides a reconciliation of movements in the carrying amount of plant and equipment, including those classified as Level 3.

5.4.3 Description of significant unobservable inputs to Level 3 valuations

2019–20 and 2018–19	Valuation technique	Significant unobservable inputs
Leasehold improvements	Current replacement cost	<ul style="list-style-type: none">• Current replacement cost per unit• Useful life of leasehold improvements
Other plant and equipment	Current replacement cost	<ul style="list-style-type: none">• Current replacement cost per unit• Useful life of other property, plant and equipment

5.5 Right-of-use assets and lease liabilities

VAGO has applied AASB 16 *Leases* 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.

Policy applicable before 1 July 2019

As a lessee, VAGO classifies leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to VAGO.

Operating lease payments, including any contingent rentals, were recognised as an expense in the Comprehensive Operating Statement on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern of the benefits derived from the use of the leased asset. The leased asset was not recognised in the Balance Sheet.

All incentives for the agreement of a new or renewed operating lease were recognised as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the incentive's nature or form or the timing of payments. In the event that lease incentives were received to enter into operating leases, the aggregate cost of incentives were recognised as a reduction of rental expense over the lease term on a straight-line basis, unless another systematic basis was more representative of the time pattern in which economic benefits from the leased asset were consumed.

Policy applicable after 1 July 2019

At inception of a contract, all entities would assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To identify whether a contract conveys the right to control the use of an identified asset, it is necessary to assess whether:

- the contract involves the use of an identified asset
- the customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use
- the customer has the right to direct the use of the asset.

This policy is applied to contracts entered into, or changed, on or after 1 January 2019.

On transition to AASB 16, VAGO elected to apply the practical expedient to 'grandfather' the assessment of which transactions are leases. It applied AASB 16 only to contracts that were previously identified as leases.

VAGO as a lessee

VAGO recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost which comprises the initial amount of the lease liability adjusted for:

- any lease payments made at or before the commencement date less any lease incentive received
- any initial direct costs incurred
- an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, an appropriate incremental borrowing rate as provided by Treasury Corporation of Victoria (TCV). Generally, VAGO uses an appropriate incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments (including in-substance fixed payments) less any lease incentive receivable
- variable payments based on an index or rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable under a residual value guarantee
- payments arising from purchase and termination options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in-substance fixed payments.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

5.5.1 Right-of-use assets

	2019–20		
	Gross carrying amount (\$ thousand)	Accumulated depreciation (\$ thousand)	Net carrying amount (\$ thousand)
Property	10 380	(1 311)	9 069
Vehicles	160	(48)	112
Total right-of-use assets	10 540	(1 359)	9 181

5.5.2 Reconciliation of movements in carrying amount of right of use assets

	Property (\$ thousand)	Vehicles (\$ thousand)	Total (\$ thousand)
Balance at 1 July 2019	10 380	175	10 555
Additions	-	73	73
Disposals	-	(109)	(109)
Depreciation	(1 311)	(27)	(1 338)
Balance at 30 June 2020	9 069	112	9 181

5.5.3 Lease liabilities

	2019–20 (\$ thousand)	2018–19 (\$ thousand)
Maturity analysis—contractual undiscounted cash flows		
Less than one year	1 370	86
One to five years	5 985	97
More than five years	3 842	-
Total undiscounted lease liabilities	11 197	183
Less: future finance charges	(1 551)	(7)
Present value of minimum lease payments	9 646	176
Lease liabilities included in the Balance Sheet		
Current	1 005	82
Non-current	8 641	94
Total lease liabilities	9 646	176

VAGO has recognised the following in the Comprehensive Operating Statement relating to leases:

2019–20
(\$ thousand)

Interest expense on lease liabilities	405
---------------------------------------	-----

Impact on financial statements

On transition to AASB 16, VAGO recognised an additional \$10.6 million of right-of-use assets and \$10.6 million of lease liabilities. Provisions of \$1.02 million relating to operating leases and make-good were extinguished, as well as \$356 000 relating to leasehold improvements, which were accounted for as an adjustment in retained earnings (see Note 6.4 and Note 5.1 respectively for further details).

When measuring lease liabilities, VAGO discounted lease payments using its incremental borrowing rate at 1 July 2019. The weighted-average rate applied is 4.07%.

Total
(\$ thousand)

Operating lease commitment at 30 June 2019	21 188
Commitment relating to monthly outgoings and common costs	(5 736)
Lease incentive liability	(3 700)
Make-good provision	576
Total undiscounted cash flows converted to lease liability—property	12 328
Effect of discounting using the incremental borrowing rate at 1 July 2019	(1 948)
Lease liability recognised as at 1 July 2019—property	10 380
Finance lease liability recognised at 30 June 2019—vehicles	176
Lease liabilities recognised as at 1 July 2019	10 556

Short-term and low value leases

VAGO has elected not to recognise right-of-use assets and lease liabilities for short-term leases of plant and equipment that have a lease term of 12 months or less and leases of low-value assets (individual assets worth less than \$10 000), including IT equipment. VAGO recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Leases classified as operating leases under AASB 117 Leases

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at VAGO's incremental borrowing rate as at 1 July 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payment.

Leases previously classified as finance leases

For leases that were classified as finance leases under AASB 117, the carrying amount of the right-of-use asset and the lease liability at 1 July 2019 are determined at the carrying amount of the lease asset and lease liability under AASB 117 immediately before that date.

6. Other assets and liabilities

This section sets out assets and liabilities arising from operations.

6.1 Receivables

	2019–20 (\$ thousand)	2018–19 (\$ thousand)
Statutory		
Amounts owing from Victorian Government ⁽ⁱ⁾	21 099	20 607
Total receivables	21 099	20 607
Represented by		
Current receivables	8 041	7 646
Non-current receivables	13 058	12 961
Total receivables	21 099	20 607

Note:

(i) The total amount recognised as owing from the Victorian Government was \$21 099 000 (2018–19: \$20 607 000) of which \$8 041 000 (2018–19: \$7 646 000) 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.

Receivables consist of statutory receivables which are recognised at fair value plus any directly attributable transaction costs, 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.

6.2 Other non-financial assets

	2019–20 (\$ thousand)	2018–19 (\$ thousand)
Current other non-financial assets		
Prepaid software and hardware maintenance contracts	269	184
Prepaid rental expense—accommodation	193	185

	2019–20 (\$ thousand)	2018–19 (\$ thousand)
Prepaid recruitment subscriptions	31	-
Other prepayments	-	111
Accrued income—recovery of expenses	-	37
Total current other non-financial assets	493	517
Non-current other non-financial assets		
Prepaid software and hardware maintenance contracts	8	58
Prepaid recruitment subscriptions	52	-
Total non-current other non-financial assets	60	58
Total other non-financial assets	553	575

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

	2019–20 (\$ thousand)	2018–19 (\$ thousand)
Contractual		
Supplies and services ⁽ⁱ⁾	1 039	1 939
Amounts payable to government and agencies	-	40
Lease incentive ⁽ⁱⁱ⁾	3 233	3 700
Other payables ⁽ⁱⁱⁱ⁾	605	428
Statutory		
PAYG payable	78	18
FBT payable	15	14
GST payable	93	122
Payroll tax payable	78	71
Total payables	5 141	6 332
Represented by		
Current payables	2 376	3 099

	2019–20 (\$ thousand)	2018–19 (\$ thousand)
Non-current payables	2 765	3 233
Total payables	5 141	6 332

Note:

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

(ii) Lease incentive payable relates to funding provided by the lessor of VAGO's premises. This is amortised over the term of the lease and credited to the right-of-use lease liability.

(iii) 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.
- 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

	2019–20 (\$ thousand)	2018–19 (\$ thousand)
Non-current provisions		
Lease contracts	-	547
Make-good provision	-	475
Total non-current provisions	-	1 022
Total non-employee related provisions	-	1 022

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.

Following the adoption of AASB 16 *Leases* on 1 July 2019, these provisions were extinguished and credited to equity as a once-off adjustment. They were replaced by the recognition of a right-of-use asset and a right-of-use lease liability. Refer to Note 5.5 for further information.

6.4.1 Reconciliation of movements in non-employee related provisions

	Lease contracts (\$ thousand)	Make-good (\$ thousand)	Total (\$ thousand)
Opening balance at 1 July 2019	547	475	1 022
Transfer to equity	(547)	(475)	(1 022)
Closing balance at 30 June 2020	-	-	-

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 lease liabilities and cash balances). Note 8.1 provides additional, specific financial instrument disclosures.

7.1 Cash flow information and balances

Cash comprises of cash at hand.

	2019–20 (\$ thousand)	2018–19 (\$ thousand)
Total cash disclosed in the Balance Sheet	-	1
Balance as per Cash Flow Statement	-	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.

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

	2019–20 (\$ thousand)	2018–19 (\$ thousand)
Net result for the period	387	1 615
Non-cash movements		
(Gain)/loss on disposal of non-current assets	5	(3)
Depreciation of non-current assets	2 101	804
Movements in assets and liabilities		
(Increase) /decrease in receivables	(492)	(653)
(Increase)/decrease in prepayments	22	(11)
Increase/(decrease) in payables	(1 190)	(6 214)
Increase/(decrease) in provisions	224	232
Net cash flows from/(used in) operating activities	1 057	(4 230)

7.2 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.

7.2.1 Lease commitments

	2019–20 (\$ thousand)	2018–19 (\$ thousand)
Operating lease commitments payable⁽ⁱ⁾		
Less than 1 year	628	2 468
Longer than 1 year but not longer than 5 years	3 084	11 169
5 years or more	1 871	9 670
Total operating lease commitments payable	5 583	23 307
Contract audit service commitments payable⁽ⁱⁱ⁾		
Less than 1 year	5 936	8 164
Longer than 1 year but not longer than 5 years	555	5 927
5 years or more	-	-
Total contract audit service commitments payable	6 491	14 091
Total commitments (inclusive of GST)	12 074	37 398

	2019–20 (\$ thousand)	2018–19 (\$ thousand)
Less GST recoverable from the Australian Taxation Office	(1 098)	(3 400)
Total commitments (exclusive of GST)	10 976	33 998

Note:

(i) For 2018–19, operating lease commitments relate to office accommodation with a lease term of 10 years. For 2019–20, following the adoption of AASB 16 Leases, the rental portion of operating lease commitments has been reclassified as right-of-use lease liability. See Note 5.5 for further information. The operating lease commitment shown for 2019–20 is only the non-rental portion of operating lease commitments.

(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 5 years, with options to extend for a further 2 years.

7.3 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*.

VAGO applies AASB 9 *Financial Instruments* 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 cost 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 interest.

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 liabilities under AASB 9

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)
- 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

	2019–20 (\$ thousand)	2018–19 (\$ thousand)
Contractual financial assets—receivables and cash		
Cash	-	1
Receivables⁽ⁱ⁾		
Lease incentive and other receivables	-	-
Total contractual financial assets	-	1
Contractual financial liabilities at amortised cost		
Payables⁽ⁱ⁾		
Supplies and services	1 039	1 939
Amounts payable to government and agencies	-	40
Lease incentive	3 233	3 700
Other payables	605	428
Borrowings		
Finance lease liabilities	9 646	176

	2019–20 (\$ thousand)	2018–19 (\$ thousand)
Total contractual financial liabilities	14 523	6 283

Note:

(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 the notes to the financial statements.

The main purpose in holding financial instruments is to prudently manage VAGO's financial risks within the legislative and government policy parameters.

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.

Financial instruments: Credit risk

Credit risk refers to the possibility that a borrower will default on its financial obligations as and when they fall due.

Credit risk associated with VAGO's contractual financial assets is minimal because the main debtor is the Victorian Government.

Financial instruments: Liquidity risk

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

Maturity analysis of contractual financial liabilities⁽ⁱ⁾

		Maturity dates					
	Carrying amount	Nominal amount	Less than 1 month	1–3 months	3 months– 1 year	1–5 years	5+ years
2019–20	(\$ thousand)	(\$ thousand)	(\$ thousand)	(\$ thousand)	(\$ thousand)	(\$ thousand)	(\$ thousand)
Payables ⁽ⁱⁱ⁾							
Supplies and services	1 039	1 039	1 038	-	1	-	-
Lease incentive	3 233	3 233	39	78	351	1 869	896
Other payables	605	605	605	-	-	-	-
Borrowings							
Finance lease liabilities	9 646	9 649	124	157	725	4 972	3 671
Total contractual financial liabilities	14 523	14 526	1 806	235	1 077	6 841	4 567
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	-
Total contractual financial liabilities	6 283	6 290	2 280	226	455	1 966	1 363

Note:

(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 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 2019–20 was \$112 000 at 3.19% (2018–19: \$176 000 at 3.25%).

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:

	2019–20 No.	2018–19 No.
\$540 000–\$549 999 (substantive)	1	-
\$530 000–\$539 999 (substantive)	-	1
\$20 000–\$29 999 (acting)	-	1

9.2 Remuneration of executives

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

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

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

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

Other long-term benefits include 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)

	2019–20 (\$ thousand)	2018–19 (\$ thousand)
Short-term employee benefits	4 175	4 269
Post-employment benefits	380	385
Other long-term benefits	121	103
Termination benefits	55	-
Total remuneration	4 731	4 757
Total number of executives⁽ⁱ⁾	26	28
Total annualised employee equivalents⁽ⁱⁱ⁾	22.0	23.2

Note: (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
- all departments and public sector entities that are controlled and consolidated into the whole of state consolidated financial statements.

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

Significant transactions with government-related entities

VAGO received funding and made payments to the Consolidated Fund of \$45.5 million (2018–19: \$44.6 million) and \$27.1 million (2018–19: \$27.1 million) respectively.

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

	2019–20 (\$ thousand)	2018–19 (\$ thousand)
Revenue from financial statement audits		
Department of Treasury and Finance	948	1 280
Other government related parties ⁽ⁱ⁾	26 235	25 781
Total significant transactions with government-related entities	27 183	27 061

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

Key management personnel (KMP)

KMPs 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
- Bill Gilhooly, Assistant Auditor-General, Financial Audit (ceased 1 February 2020)
- Roberta Skliros, Assistant Auditor-General, Financial Audit (appointed 1 April 2020)

	2019–20 (\$ thousand)	2018–19 (\$ thousand)
Compensation of KMPs		
Short-term employee benefits	1 331	1 455
Post-employment benefits	80	90
Other long-term benefits	-	12
Total⁽ⁱ⁾	1 411	1 557

Note:

(i) 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

	2019–20 (\$ thousand)	2018–19 (\$ thousand)
PKF Melbourne		
Audit of the financial statements	37	35
Review of the performance statement	3	3
Total	40	38

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 Steve Bradby from PKF Melbourne was appointed to this position in 2020 (2018–19: Mr Geoff Parker, Nexia Melbourne Audit Pty Ltd).

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.

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 Australian Accounting Standards issued that are not yet effective

The following new and revised accounting standards have been issued but become effective for reporting periods commencing after 1 July 2020. VAGO is in the process of analysing the impacts of these Standards however, they are not anticipated to have a material impact.

- *AASB 2018-7 Amendments to Australian Accounting Standards—Definition of Material.*
This Standard principally amends AASB 101 *Presentation of Financial Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. It applies to reporting periods beginning on or after 1 January 2020 with earlier application permitted.
- *AASB 2020-1 Amendments to Australian Accounting Standards—Classification of Liabilities as Current or Non-Current.*
This Standard amends AASB 101 to clarify requirements for the presentation of liabilities in the statement of financial position as current or non-current. It initially applied to annual reporting periods beginning on or after 1 January 2022 with earlier application permitted however the AASB has recently issued ED 301 *Classification of Liabilities as Current or Non-Current – Deferral of Effective Date* with the intention to defer the application by one year to periods beginning on or after 1 January 2023.

Several other amending standards and AASB interpretations have been issued that apply to future reporting periods, but are considered to have limited impact on VAGO's reporting.

- *AASB 1060 General Purpose Financial Statements—Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities (Appendix C)*
- *AASB 2019-1 Amendments to Australian Accounting Standards—References to the Conceptual Framework*
- *AASB 2019-5 Amendments to Australian Accounting Standards—Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia*

9.7 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:

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

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:

- cash
- a contractual right
- to receive cash or another financial asset from another entity
- 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
- To deliver cash or another financial asset to another entity
- To exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.

Financial statements comprise:

- a Balance Sheet as at the end of the period
- a Comprehensive Operating Statement for the period
- a Statement of Changes in Equity for the period
- a Cash Flow Statement for the period
- notes comprising a summary of significant accounting policies and other explanatory information
- comparative information in respect of the preceding period as specified in paragraph 38 of AASB 101 *Presentation of Financial Statements*
- 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.

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 conveyed in a contract, or part of a contract, the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

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.

9.8 Style conventions

Figures in the tables and in the text have been rounded. Discrepancies in tables between totals and sums of components reflect rounding. Percentage variations in all tables are based on the underlying unrounded amounts.

The notation used in the tables is as follows:

-	zero, or rounded to zero
(xxx.x)	negative numbers
201x–xx	year period

The financial statements and notes are presented based on the illustration for a government department in the *2019–20 Model Report for Victorian Government Departments*. The presentation of other disclosures is generally consistent with the other disclosures made in earlier publications of the VAGO's annual reports.

APPENDIX A

Workforce profile

FIGURE A1: **Profile of VAGO employees**

	<i>All employees</i>		<i>Ongoing</i>			<i>Fixed-term and casual</i>	
	Number (headcount)	Full-time equivalent	Full-time (headcount)	Part-time (headcount)	Full-time equivalent	Number (headcount)	Full-time equivalent
As at 30 June 2020							
Gender							
Women	99	92.9	66	19	79.8	14	13.1
Men	81	81.0	62	–	62.0	19	19.0
Age							
15–24	14	13.6	11	1	11.6	2	2.0
25–34	63	62.0	57	3	59.2	3	2.8
35–44	64	61.1	38	9	44.5	17	16.6
45–54	28	26.8	15	5	18.8	8	8.0
55–64	9	8.4	5	1	5.7	3	2.7
Over 64	2	2.0	2	–	2.0	–	–
Classification							
VPS 2	10	10.0	9	–	9.0	1	1.0
VPS 3	39	38.6	36	1	36.6	2	2.0
VPS 4	25	23.8	22	3	23.8	–	–
VPS 5	46	44.1	35	7	40.3	4	3.8
VPS 6	33	30.8	22	8	28.1	3	2.7
Senior Technical Specialists	2	2.0	2	–	2.0	–	–
Executives	24	23.6	2	–	2.0	22	21.6
Auditor-General	1	1.0	–	–	–	1	1.0
Total Employees	180	173.9	128	19	141.77	33	32.1

	<i>All employees</i>		<i>Ongoing</i>		<i>Fixed-term and casual</i>		
	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

Note: At the start of 2019–20, we redefined our executives as fixed term to better reflect their status. The two executives defined as ongoing are VPS employees acting in executive roles.

Source: VAGO.

APPENDIX B

Workplace health and safety

Our commitment to workplace health and safety continued in 2019–20. We continued to provide mandatory appropriate behaviour training for all staff and engaged a consultant to provide support to staff on setting up an ergonomic workstation.

We shut our office in response to the COVID-19 pandemic with staff requiring approval from senior management to enter the building. Staff working from home have been supplied with all of the necessary materials to continue their role, and our HR team has run a range of health and wellbeing initiatives to support staff through this challenging time.

In 2019–20, there were nine workplace health and safety incidents reported—eight fewer than in 2018–19. The incident rate per 100 full-time equivalent staff in 2019–20 was 5.18 per cent, compared to 10.95 in 2018–19. There was one standard WorkCover claim lodged in 2019–20, as shown in Figure B1.

FIGURE B1: **WorkCover claims**

Claims and rate	2016–17	2017–18	2018–19	2019–20
Number of standard claims ^(a)	1	2	1	1
Rate per 100 full-time equivalent staff	0.53	1.12	0.64	0.57

Note: (a) Standard 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 2020.

Source: Data supplied by the Victorian WorkCover Authority.

In 2019–20, there were no lost-time claims, as shown in Figure B2.

FIGURE B2: **Lost time and average cost of claims**

Lost time and cost	2016–17	2017–18	2018–19	2019–20
Number of lost-time claims ^(a)	-	1	-	-
Average cost of claims ^(b)	\$725	\$20 421	\$10 377	\$7 795

(a) A lost-time claim is one with one or more days compensated by the Victorian WorkCover Authority (after employer excess) as at 30 June 2020. They are a subset of standardised claims.

(b) Based on claims reported between 1 July 2019 and 30 June 2020. Claims include employer and Victorian WorkCover Authority payments to date, plus an estimate of outstanding claims costs (further costs as calculated by the Victorian WorkCover Authority's statistical case estimate model).
Source: Data supplied by the Victorian WorkCover Authority.

During 2019–20, our Health and Safety Committee:

- quickly mobilised staff to enable working from home during the COVID-19 pandemic
- considered the nature of injuries and incidents that occurred during the year, including identifying hazard management strategies
- organised workplace inspections of the office to identify hazards and agree on solutions to remove or minimise them
- promoted wellbeing events to all staff
- rolled out regular webinar series and newsletters focused on mental health and wellbeing during the pandemic
- paid for flu vaccinations for staff
- conducted pulse checks to assess wellbeing
- developed a COVIDSafe plan to prioritise a safe return to the office

Our performance against our workplace health and safety 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	<p>All employees were provided with access to a 'Safe Workstation Set-up' online module on commencement as well as on commencing working from home during the COVID-19 pandemic.</p> <p>Ergonomic assessments and HR support were arranged with employees if there were still concerns after the module was completed.</p> <p>During the COVID-19 pandemic, all employees were provided with the necessary products and equipment to enable effective work from home.</p>
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 2019–20, which meets the requirements of the <i>Occupational Health and Safety Act 2004</i> .

Source: VAGO.

APPENDIX C

General executive information

In 2019–20, none of our executive officers was 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 to manage any such conflicts. Further information on the number of our executive officers, by classification, is provided in Figures C1 and C2.

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

Income band (salary) ^(a)	Executives	Senior Technical Specialists
\$140 000–\$159 999	1	-
\$160 000–\$179 999	9	-
\$180 000–\$199 999	10	1
\$200 000–\$219 999	-	1
\$220 000–\$239 999	2	-
\$340 000–\$359 999	1	-
Total	23	2

Note:

(a) 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.

Source: VAGO.

FIGURE C2: Number of executive officers by classification, at 30 June 2020^(c)

Classification (a)	Total (ongoing)		Vacancies	Male		Female	
	No.	Var. ^(b)		No.	Var.	No.	Var.
EO1	1	-	-	1	-	-	-
EO2	2	-	-	-	(1)	2	1

	Total (ongoing)		Vacancies	Male		Female	
Classification (a)	No.	Var. ^(b)		No.	Var.	No.	Var.
EO3	21	3	-	13	2	8	1
Total	24	3	-	14	1	10	2

Note:

(a) The Auditor-General is not included in this table.

(b) 'Var' refers to variance in the numbers reported at 30 June 2020 compared to 30 June 2019.

(c) This table includes two acting executives and excludes one executive who was on extended leave without pay at 30 June 2020.

Source: VAGO.

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 and the total remuneration paid to them over the course of the reporting period. The financial statements note does not include the Accountable Officer (the Auditor-General), 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 for June 2020 and June 2019**

Remuneration and vacancies	2020	2019
Executives (Financial Statement Note 9.2)	26	28
Accountable Officer ^(a)	1	1
Less: Separations	(3)	(7)
Total executive numbers as at June 30	24	22

Note:

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

Source: VAGO.

APPENDIX D

Audit and risk management

Audit and Risk Committee Chair's report for the year ended 30 June 2020

The Audit and Risk Committee is appointed by the Auditor-General to provide independent advice to assist them in the discharge of their responsibilities for the management of VAGO's risk, control and compliance framework, the external accountability responsibilities as prescribed in the *Financial Management 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 operations 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 2020 and their attendance at meetings are set out in Figure D1.

FIGURE D1: **Audit and Risk Committee members for the year ended 30 June 2020**

Committee member	Meetings held	Meetings attended
Lynne O'Brien	4	4
Julie Fahey	4	4
Peter Niblett	4	4

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:

- independently review and report on the annual report 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
 - compliance with applicable legislation 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 year, the Audit and Risk Committee has considered:

- the closing report from the external financial auditor for the year ended 30 June 2020, which identified no significant issues
- status updates and review reports from the internal auditor, which include management's response to matters raised by internal audit, together with subsequent follow up
- VAGO's risk management reports and risk register
- systems of controls for gifts, benefits and hospitality and the Auditor-General's expenditure
- policies and procedures in place for the development of VAGO's annual plan and budget and resource planning
- impacts of COVID-19 on VAGO, including management actions in response to the pandemic and other COVID-19 related disclosures.

At the time of signing this report, the annual financial report for the year ended 30 June 2020 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 ShineWing Australia in 2019–20.



Lynne O'Brien
Chair, Audit and Risk Committee
25 August 2020

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 Operations Committee, who is responsible for ensuring the risk is effectively managed. The enterprise risk register is considered by our Audit and Risk Committee at each of its meetings.


During 2019–20, we:

- refreshed and updated our enterprise risks in line with our *Strategic Plan 2017–2021*
- continued to undertake an in-depth monthly focus on current and emerging risks
- reviewed and reassessed our risk management framework, including the risk appetite statement and business unit operational risk registers.
- refreshed our enterprise risk register in November 2019. We have identified 11 enterprise risks:

	Risk
1	External events or changes undermine our role and powers in Victoria's integrity system and diminish our impact
2	Failure of practice and project management delaying and/or denying the fulfilment of our plans
3	Serious breaches of the Act, <i>Financial Management Act 1994</i> and <i>Public Administration Act 2004</i>
4	Failure to capitalise on modern technologies and work practices to ensure our continued relevance and reach
5	Failure to influence public service accountability and performance
6	Unauthorised disclosure and/or breaches of information
7	Final audit product is of poor quality
8	Failure to meet auditing and assurance standards in the conduct of audits
9	Control environment does not support management of conflicts of interest, fraud and corruption, compliance and sound financials
10	Misalignment of staff and leadership with VAGO values
11	Ineffective sourcing and development of high-quality human capital (staff and third-party providers)

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

25 August 2020

Internal audit

ShineWing Australia was appointed as our internal auditor in October 2019. The internal auditor reports to our Audit and Risk Committee and the Auditor-General. The following reviews were carried out in 2019–20:

- enterprise resource planning system implementation
- data analytics implementation
- Financial Management Compliance Framework
- audit service provider management and supervision

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 for 2018–19 and 2019–20**

Indicator	2019–20 ⁽ⁱ⁾	2018–19 ⁽ⁱⁱ⁾
Energy Use⁽ⁱⁱⁱ⁾		
Total energy usage segmented by primary source (MJ)	1 596 702	1 756 113
Electricity (MJ)—excluding Green Power	1 365 546	1 507 885
Natural Gas (MJ)	231 156	248 228
Green Power (MJ)	-	-
Total greenhouse gas emissions from energy consumption (tonnes CO ₂ e)	438	504
Electricity (tonnes CO ₂ e)—excluding Green Power	425	490
Natural gas (tonnes CO ₂ e)	13	14
Percentage of electricity purchased as Green Power	-	-
Units of office energy used per FTE (MJ/FTE)	9 182	11 337
Units of office energy used per office area (MJ/m ²)	614	675
Waste and recycling⁽ⁱⁱⁱ⁾		
Total units of waste disposed of by destination (kg/year)	3 578	5 051
Landfill (kg)	1 891	2 670
Commingled recycling (kg)	594	838
Secure documents (kg)	682	961
Organics (kg)	413	583
Total units of waste disposed of per FTE by destination (kg/FTE) ^(iv)	21	33
Landfill (kg/FTE)	11	17

Indicator	2019–20 ⁽ⁱ⁾	2018–19 ⁽ⁱⁱ⁾
Commingled recycling (kg/FTE)	3	5
Secure documents (kg/FTE)	4	6
Organics (kg/FTE)	2	4
Recycling rate (%)	47%	47%
Greenhouse gas emissions associated with waste (tonnes CO ₂ e)	2	3
Paper use⁽ⁱⁱⁱ⁾		
Total units of A4 equivalent copy paper used (reams)	479	571
Units of A4 equivalent copy paper used per FTE (reams/FTE) ^(iv)	3	4
75–100% recycled content	75%	51%
0–49% recycled content	25%	49%
Water consumption⁽ⁱⁱⁱ⁾		
Total water consumption (kilolitres)	1 302	1 567
Units of office water used per FTE (kilolitres/FTE)	7	10
Units of office water used per office area (kilolitres/m ²)	0.5	0.6
Travel and transport⁽ⁱⁱⁱ⁾		
Total energy consumption by vehicle fleet (MJ)	666 485	767 277
Total distance travelled by vehicle fleet (km)	183 268	218 808
Total greenhouse gas emissions from vehicle fleet (tonnes CO ₂ e)	45	55
Greenhouse gas emissions from vehicle fleet per 1 000 km (tonnes CO ₂ e)	0.5	0.5
Total distance travelled by air (km)	45 089	63 854
Greenhouse gas emissions⁽ⁱⁱⁱ⁾		
Total greenhouse gas emissions associated with energy use (tonnes CO ₂ e)	438	504
Total greenhouse gas emissions associated with vehicle fleet (tonnes CO ₂ e)	45	55
Total greenhouse gas emissions associated with air travel (tonnes CO ₂ e)	5	13
Total greenhouse gas emissions associated with waste disposal (tonnes CO ₂ e)	2	3

Note:

(i) Figures have been rounded to the nearest whole number where appropriate.

(ii) Prior year figures have been restated to exclude common areas and relate only to the East tower where VAGO is located.

(iii) Reduction in indicators due to working from home arrangements and ceasing of client onsite visits commencing on 16 March 2020 as a result of COVID-19.

(iv) Increase in FTE of 18.8 at 30 June 2020 compared to prior year, resulting in decrease in kg/FTE indicators.

Source: VAGO.

APPENDIX F

Policies and compliance

Delegations

Under the Act, we have to report the names of any persons to whom the Auditor-General delegated the power to express a written audit opinion. In 2019–20, the Auditor-General delegated this power to the following financial audit directors:

- Simone Bohan
- Sanchu Chummar
- Travis Derricott
- Charlotte Jeffries
- Janaka Kumara
- Jonathan Kyvelidis
- Paul Martin
- Tim Maxfield.

Building Act

We do not own or control any government buildings and therefore, have no responsibilities under the *Building Act 1993*.

Government advertising expenditure

We have no advertising expenditure to report.

Major contracts

We have no major contracts to report.

Local jobs first—Victorian Industry Participation Policy

During 2019–20, we did not undertake any procurement activity that was subject to the Local Jobs First Policy.

National Competition Policy

We comply 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 2019–20, we had nothing to report to the Victorian Inspectorate as per requirements under the Act, and the Inspectorate did not review any of our activities. During the year, the Inspectorate consulted us on a range of documentation, including its draft Integrity Response Guidelines. The Inspectorate also reviewed and commented on our policies, procedures and templates related to our coercive powers to assist it to acquit its oversight responsibilities related to us.

Work arrangements

We offer 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.

We operate under the *Victorian Public Service Enterprise Agreement 2016* in providing leave for carers, as defined in the *Carers Recognition Act 2012*.

Merit and equity

We have 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.

Public interest disclosures

Under the *Public Interest Disclosures Act 2012*, we 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:
<https://www.audit.vic.gov.au/complaints-about-vago>

Freedom of information

The Act broadly precludes us from disclosing information we gather during an audit, other than reporting to Parliament.

The Act 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 2020, we received three requests for information, two of which were for audit evidence that we cannot provide, and one that did not proceed as it was an invalid request.

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

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

- by email (enquiries@audit.vic.gov.au)
- by phone (03 8601 7000)
- in writing (Freedom of Information, Victorian Auditor-General's Office, Level 31, 35 Collins Street, Melbourne 3000)

APPENDIX G

Additional information available on request

This report and our website publish all information required by the 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.

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Report of operations—Financial reporting direction (FRD) guidance		
Charter and purpose		
FRD 22H	Manner of establishment and the relevant minister	7
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FRD 22H	Key initiatives and projects	36, 37
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FRD 22H	Significant changes in financial position during the year	60
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FRD 21C	Disclosures of responsible persons, executive officers and other personnel (contractors with significant management responsibilities) in the financial report	103
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FRDs applicable to VAGO with no disclosures to make in 2019–20

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	-

Source: VAGO.