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# Auditor-General's Report on the Annual Financial Report 2019–20

**Tabled 24 November 2020**



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The purpose of this report is to inform Parliament about our audit of the state's 2019–20 Annual Financial Report (or AFR).

## **Conclusion**

Overall, we found that the 2019–20 AFR is reliable and accurate, and consequently we issued a clear audit opinion on it.

The financial performance of both the state and the general government sector deteriorated significantly compared to last year as the state responded to the COVID-19 pandemic.

## **Results of audits**

There are 26 government-controlled entities that make up most of the state's revenue, expenses, assets and liabilities. We focus on these entities when auditing the AFR. We issued clear audit opinions on 25 of 26 of these entities' financial statements for 2019–20.

We issued an adverse audit opinion on VicTrack's financial report because it incorrectly accounted for the transport assets it leases to the Department of Transport.

We also identified other significant asset accounting issues at VicTrack. We could not verify \$7.2 billion of the \$44 billion of transport assets on its asset register, or the \$754 million in depreciation expenses it reported this year.

In our last two reports on the AFR, we commented on issues with the state's infringement and enforcement system. During the year, the Department of Justice and Community Safety continued to work through these issues to either fully or partially resolve them.

## Results of audits



It identified errors in its reporting of fines income. This included a \$91.3 million understatement in 2017–18 and a \$176.5 million overstatement in 2018–19. We also identified that the fees and fines receivable balance reported last year was overstated by \$1.164 billion. These errors were corrected in this year’s AFR.

### Financial performance

In 2019–20, the COVID-19 pandemic caused unexpected falls in the state’s revenue and increases in its expenditure compared to last year and to its original and revised budgets.

Most of this impact has been in the general government sector, where revenue fell by \$1.65 billion and expenditure increased by \$5.86 billion compared to last year. The general government sector’s operating result for this year, a loss of \$6.5 billion, erases two thirds of the surpluses it accumulated over the last five years.

The new lease and service concession arrangement standards also reshaped the state’s balance sheet, which have added to debt but also added significant assets for the first time.

In our audit, we identified several emerging risks that could negatively affect the state’s financial performance.

### Emerging risks

One risk involves outstanding insurance claims liabilities at WorkSafe Victoria. These liabilities increased significantly in 2019–20, with more injured workers accessing weekly benefits for longer. If this trend continues at the current premium levels, the workers compensation scheme risks becoming financially unsustainable.

## Recommendations

# 4

recommendations

1

Department of Treasury and Finance to prepare and publish a separate statement disclosing the costs directly attributable to COVID-19

1

Department of Transport and the Department of Treasury and Finance to work with VicTrack to resolve its asset accounting issues

2

all Victorian Government departments and agencies to review their IT systems, security controls and the number of users who have privileged access

Another risk involves the state's infrastructure program. The state has many infrastructure projects planned and under construction. As a result, there is a risk that unexpected delays, contract disputes or cost increases could negatively impact the state's finances. In this regard, the AFR discloses an unquantifiable contingent liability relating to the Metro Tunnel project.

### IT security

We also identified ongoing issues with financial IT systems across the public sector, including weaknesses with security, privileged user access, change management and monitoring.

Resolving these issues is important due to the growing number of staff who are accessing IT systems remotely and the sophistication of cyberattacks.

### Recommendations

We made four recommendations in our report.

- one to the Department of Treasury and Finance to prepare and publish a separate statement disclosing the costs directly attributable to COVID-19
- one to the Department of Transport and the Department of Treasury and Finance to work with VicTrack to resolve its asset accounting issues, and
- two for all Victorian Government departments and agencies to review their IT systems, security controls and the number of users who have privileged access.