

APPENDIX A

Submissions and comments

We have consulted with the agencies named in this report and considered their views when reaching our audit conclusions. As required by the *Audit Act 1994*, we gave a draft copy of this report, or relevant extracts, to those agencies and asked for their submissions or comments. We also provided a copy of this report to DPC.

Responsibility for the accuracy, fairness and balance of those comments rests solely with the agency head.

Responses were received as follows:

Treasurer of Victoria.....	42
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Mr Andrew Greaves
Auditor-General
Victorian Auditor-General's Office

Dear Mr Greaves

**RESPONSE TO THE AUDITOR-GENERAL'S REPORT ON THE ANNUAL
FINANCIAL REPORT OF THE STATE OF VICTORIA, 2020-21**

Thank you for your letter of 27 October 2021, seeking my response to your Report on the Annual Financial Report (AFR) of the State of Victoria: 2020-21 (the Report) before its finalisation and transmission to Parliament.

The Report notes the considerable challenges faced by both the public sector and your officers in the preparation and audit of entity and the State's consolidated financial reports in the course of the COVID-19 pandemic. Through close collaboration, we have jointly ensured the timely completion of high quality and timely reports including the AFR, faithfully serving timely public accountability and transparency.

I welcome the opportunity to comment on your Report, which confirms the issuance of an unmodified audit opinion on the financial statements for the State of Victoria and the General Government Sector (GGS) for the financial year ended 30 June 2021. The report also provides an independent assessment of the financial outcomes and fiscal aggregates of the State for the year ended 30 June 2021, which complements the Government's own assessment as presented in the AFR.

The report acknowledges the significant impact of the COVID-19 pandemic on the State's financial performance and position. It particularly notes the increase in employee expenses in 2020-21 compared with the previous year, which was primarily due to additional resources in the health sector for the COVID-19 response and additional staff required following the establishment of COVID-19 Quarantine Victoria, as well as increases in remuneration levels (including for school employees, nurses and midwives, doctors, paramedics, public servants, and police) under enterprise bargaining agreements consistent with the Government's wages policy.



OFFICIAL

The report notes that \$11.7 billion of net costs in 2020-21 were attributable to the government's direct COVID-19 response that contributed to the net operating deficit of \$14.6 billion, with \$2.9 billion not being directly attributable to the pandemic.

It is important to highlight that the \$11.7 billion quoted only covers the impact of specific funding/support decisions of the Government. As the report notes, it does not include the indirect impacts of the pandemic on the State's revenues, including State taxes, GST revenues and other own-sourced revenues from hospitals, schools and TAFEs. It also does not include redirection of existing departmental budget resources.

Accordingly, it is not possible to reliably determine the overall impact (direct and indirect) of the pandemic on the general government sector's and the State's overall operating results.

As stated in the 2021-22 State Budget, the Government remains committed to delivering responsible financial management through a robust fiscal framework.

In the short-term, the Government has prioritised the use of its balance sheet to support employment, business and consumer confidence, and household budgets.

This is appropriate given the unprecedented nature of the coronavirus (COVID-19) pandemic. This approach will have short-term costs to the State's financial position, but over the longer term will result in a quicker and stronger economic recovery.

The Government's fiscal plan for the medium term involves four steps:

- Step 1: creating jobs, reducing unemployment and restoring economic growth
- Step 2: returning to an operating cash surplus
- Step 3: returning to operating surpluses
- Step 4: stabilising debt levels.

The Government will continue to review and refine its plan in light of the prevailing economic conditions.

Finally, I wish to acknowledge the recommendations made in the report to all departments and agencies, aimed towards the strengthening of their internal control environments. These recommendations are noted on behalf of the sector and supported as they specifically relate to the Department of Treasury and Finance.

Yours sincerely

TIM PALLAS MP
Treasurer

11/ 11/ 2021

OFFICIAL



Department of Environment,
Land, Water and Planning

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Mr Andrew Greaves
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Dear Mr Greaves

AUDITOR-GENERAL'S REPORT ON THE ANNUAL FINANCIAL REPORT OF THE STATE OF VICTORIA 2020-21

Thank you for your letter dated 27 October 2021 providing the Department of Environment, Land, Water and Planning (DELWP) with the opportunity to comment on your draft Report on the Annual Financial Report of the State of Victoria 2020-21.

DELWP has reviewed the relevant content and notes the information disclosed is accurate. I would like to provide additional information and explanation relating to the material adjustments disclosed in Section 1.1.

Misclassification of the initial recognition of the financial liability as a grant expense

I acknowledge the material adjustment for the value of \$200 million relating to misclassifying the initial recognition expense from financial instruments as a grant expense. This misclassification was solely within expenses from transactions and did not impact the net result from transactions or the net asset position for DELWP or the State of Victoria.

This transaction related to a new agreement signed during the financial year. DELWP's analysis of the arrangement concluded that it should be treated as a financial liability within the scope of AASB 9 *Financial Instruments*, in line with your team's view. The corresponding expense was treated as a grant expense. The expense was adjusted in the annual financial statements to an initial recognition expense from financial instruments.

I appreciate that new, complex transactions have the potential to result in classification errors. To reduce the risk of such errors, the DELWP financial reporting team will engage the VAGO financial audit team earlier in discussions on the appropriate accounting treatment to seek any feedback before releasing the draft annual financial statements. This engagement will typically occur by inviting the VAGO financial audit team to comment on position papers.

Non-cash movement included in cash transactions

The contract for difference derivative settlements were classified as cash receipts in the cash flow statement rather than derivative settlements and payments of grants and other transfers. An adjustment was made to reclassify the derivative settlements in accordance with the advice from the VAGO financial audit team. This adjustment occurred within the Net cash flows from operating activities and had no further impact on the cash flow statement, DELWP's other statements or the State of Victoria.

DELWP has implemented new internal controls to ensure future derivative payments are correctly recognised in the cash flow statement.

Any personal information about you or a third party in your correspondence will be protected under the provisions of the *Privacy and Data Protection Act 2014*. It will only be used or disclosed to appropriate Ministerial, Statutory Authority, or departmental staff in regard to the purpose for which it was provided, unless required or authorized by law. Enquiries about access to information about you held by the Department should be directed to foi.unit@delwp.vic.gov.au or FOI Unit, Department of Environment, Land, Water and Planning, PO Box 500, East Melbourne, Victoria 8002.



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If you would like more information about this matter, please contact Mark Briglia, Director Financial Management and Reporting, DELWP, by emailing mark.briglia@delwp.vic.gov.au or on 0412 416 135.

Thank you for the opportunity to provide comment on your final report.

Yours sincerely



John Bradley
Secretary

10 / 11 / 2021



Secretary

Department of Health

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BAC-BR-20371

Andrew Greaves
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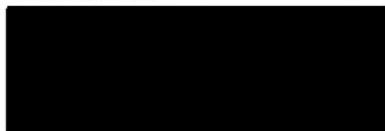
Dear Mr Greaves

Thank you for providing the extract of the proposed report *Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2020–21* and giving me the opportunity to comment on content relating to the Department of Health.

I note that a material disclosure error was identified in the draft financial reports of the Department of Health relating to the New Footscray Hospital PPP, with the information included in the wrong note. I acknowledge the collaboration between our teams to correct this in final reports enabling you to provide a clear audit opinion to the department. I am comfortable that your report accurately describes the reason for this changed disclosure.

Kind regards

Yours sincerely



Professor Euan M Wallace AM
Secretary

03/11/2021

Copy: Timothy Maxfield, Director, Victorian Auditor-General's Office





Department of Justice and Community Safety

Secretary

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Dear Mr Greaves

Thank you for your letter dated 27 October 2021 regarding your proposed *Report on the Annual Financial Report of the State of Victoria: 2020-21* (Report), and the invitation to provide a formal response.

I note that your proposed Reports references the Department of Justice and Community Safety's (the department) internal controls relating to the administered fines and fees receivables the department collects as well as employee expenses and revenue at COVID-19 Quarantine Victoria (CQV).

The Report acknowledges that in order to support the government's response to the COVID-19 pandemic the department was required to establish new process in a very short time frame to support critical public health requirements. On 27 July 2020 the Hotel Quarantine functions transferred to the department until the establishment of CQV as an independent Administrative Office on 1 December 2020.

Since identification of the control issues significant work has been undertaken to strengthen the internal controls and mitigate future risks. In particular, the Report highlights DJCS' effectiveness in improving reporting on administered fines and fees income and receivables. Further enhancements of the solutions for each component above is underway to achieve continuous improvement.

The department is committed to reviewing and implementing a sustainable best practice model for the calculation of the expected credit loss relating to the administered fines and fees receivables. The method previously used to calculate the estimated credit loss allowance has formed the basis for the estimation since at least 2006, however it is



recognised that the method should be reviewed regularly to ensure it remains accurate, relevant, and fit for purpose.

I acknowledge the recommendations made in the Report and provide specific responses below:

Recommendation	DJCS Response
Report gross and net administered fines and fees receivables, and the expected credit loss provision associated with those receivables, in its financial report.	The department accepts this recommendation and will work with the Department of Treasury and Finance and VAGO to implement this recommendation.

During 2020-21, the department worked closely with VAGO and is committed to continuing to strengthen our internal control environment. The department will continue to work closely with your office to implement future improvements.

Thank you again for the opportunity to comment on your report.

Yours sincerely



Rebecca Falkingham
Secretary

12/11/2021



Department of Jobs, Precincts and Regions

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Ref: CSEC-2-21-12868

Mr Andrew Greaves
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Dear Mr Greaves

Proposed report *Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2020-21*

Thank you for your letter of 27 October 2021, providing the department with an extract of the proposed report *Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2020-21* (the Report).

As the report highlights, the exceptional circumstances created by the pandemic required the Department of Jobs, Precincts and Regions (DJPR) to provide rapid and appropriate support to protect businesses and jobs across the State. In 2020–21, DJPR created new COVID-19 grant programs and processed an unprecedented amount of grant applications, paying \$6.0 billion in grants, including \$3.4 billion to support Victorian individuals and businesses affected by the COVID-19 pandemic. New procedures and controls were established for these programs in a short time frame.

The department has reviewed the extract of the Report. While the Report identified anomalies in a sample of grant applications, it concluded that these anomalies were not material when projected to the total grant population, and that the grant expenditure amounts in the DJPR financial report were materially correct.

Since the outset of the pandemic, procedures and internal controls for COVID-19 grants programs have been continually reviewed and refined. The deficiencies in controls identified by VAGO in the Report are being addressed and DJPR remains committed to continuing to strengthen our control environment, including through implementation of a revised Grants Framework.

Thank you for the opportunity to comment on the extract of the proposed report.

Yours sincerely



Simon Phemister
Secretary





Department of Transport

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Ref: BSEC-1-21-9591R

Mr Andrew Greaves
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Dear Mr Greaves

PROPOSED REPORT AUDITOR-GENERAL'S REPORT ON THE ANNUAL FINANCIAL REPORT OF THE STATE OF VICTORIA: 2020–21 - DOT RESPONSE LETTER

Thank you for the opportunity to comment on the extract of the proposed *Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2020–21*.

The Department recognises the significance of the matters raised and the implications of issues with the quality of asset information at a whole of government level. As noted in your report, the Department has been working closely with the relevant agencies and authorities on this issue and a significant amount of work has been undertaken to address the concerns raised.

The main focus of the work undertaken has been the development of a new rail asset attribute framework and an associated template for the detailed identification of assets being constructed in the Big Build program. This will assist in the provision of comprehensive information to enable VicTrack to correctly record the assets on its register.

Over the last twelve months DoT and MTIA were able to provide over \$4 billion of asset attribute information to VicTrack to address issues raised in last year's report and this significant work, as recognised in your report, represents considerable progress in the collection of rail asset attribute data.

Specifically, work is well underway to address assets not able to be verified by your Office as at 30 June 2021, with investigations into asset details held in source systems and also data retained by the various associated entities and alliances.

There are significant challenges to the implementation of the framework due to the complexity and scale of the projects underway and the historical information available on some older completed projects. DoT, MTIA and VicTrack will continue to work together to improve the timing, quality, and completeness of rail asset information.

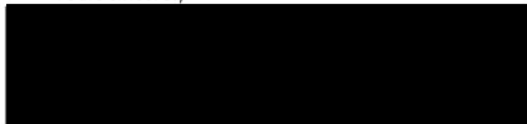
DoT and VicTrack are cognisant of the requirements of the resources, skills and capability of the people needed to deliver, implement and drive the framework in the Transport portfolio.



There are also challenges in relation to the asset valuation methodology used by the Valuer General when compared to asset accounting standards and methodology. This disparity causes anomalies to asset values that has implications across the whole of government.

With this work and the collaboration across the various transport entities, it is anticipated that the quality and level of asset information will significantly improve for next year's reporting and continue to be progressively enhanced over the coming years of the Big Build program.

Yours sincerely



Paul Young
Secretary
Department of Transport

12 November 2021



Our Ref: D/21/47345
11 November 2021

Andrew Greaves
Auditor-General
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Dear Mr Greaves

Re: Proposed report: Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2020-21

Thank you for your letter dated 27 October 2021, which included extracts pertaining to the Victorian Rail Track (VicTrack) for the proposed *Auditor-General's Report on the Annual Financial Report of the State of Victoria 2020-21*.

I appreciate the opportunity to provide comments from VicTrack and have taken the opportunity to enclose a response for inclusion in the report (refer Attachment A of this letter).

Should you require any further information please contact me on 0438 561 891.

Yours faithfully,



Chris Olds
Deputy Chief Executive

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VicTrack

ATTACHMENT A - Response to issues raised by the Auditor-General's Report on the Annual Report of the State of Victoria 2020-21

VicTrack continues to have a difference of opinion with the Victorian Auditor General's Office (VAGO) on the classification of its operating leases, which resulted in the adverse qualification in 2019-20 for VicTrack and its consolidated entities.

VicTrack's position as lessor in relation to these leases as part of the 2020-21 financial statements has been informed by professional accounting advice and remains unchanged from 2019-20. There has been no contractual change that allows VicTrack to change this historical classification under the accounting standards.

We note that VicTrack's treatment as lessor is not connected to the position adopted by the Department of Transport (DoT) as lessee, as the adoption of the new Lease accounting standard treats lessor and lessee's differently.

Unadjusted material errors – VicTrack

Maintenance costs

VicTrack agrees with VAGO that these costs should not have been transferred but rather, should have been expensed in the DoT accounts upon construction of the asset.

VicTrack however has followed the Financial Reporting Directions process which requires that the assets are transferred and recorded at fair value as per the capital allocation statements.

As a part of the asset attribute project a portion of transferred costs were identified to be operating expenses in nature. As these assets were recorded on VicTrack's asset register for a number of years VicTrack accounted for the asset write down as an impairment.

Deferred tax losses

Despite the longstanding audited treatment of these balances, the issue was raised late in the 2020-21 audit. Given the quantum of the requested adjustment by VAGO, VicTrack has committed to review this in 2021-22, supported by appropriate modelling and analysis.

Accounts and asset records

VicTrack appreciates VAGO's acknowledgment of the significant work already performed in the assets space and will continue to work collaboratively with DoT to investigate and resolve legacy asset attribute issues in order to identify assets and continuously improve asset records.

The co-developed DoT and VicTrack framework is designed to address the identification and collection issues of asset attributes at the inception of the asset project delivery build across the transport sector. Once this framework is successfully implemented the ongoing issues experienced in relation to poor asset identification and quality will be addressed.

Asset write-offs and write downs

VicTrack facilitated a subsequent valuation process to improve asset information, measurement and quality of reporting for the 2020-21. During this process an anomaly between the valuation methodology and that required by the Australian accounting standards was discovered. VicTrack agrees that resolution of this issue is necessary to ensure proper record keeping is maintained.

VicTrack