

APPENDIX C

Audit opinion on the AFR

Independent Auditor's Report



Victorian Auditor-General's Office

To the Treasurer of the State of Victoria

Opinion	<p>I have audited the consolidated financial report of the State of Victoria (State) and the Victorian General Government Sector (General Government Sector), which comprises the:</p> <ul style="list-style-type: none">• consolidated State and General Government Sector balance sheets as at 30 June 2023• consolidated State and General Government Sector comprehensive operating statements for the year then ended• consolidated State and General Government Sector statements of changes in equity for the year then ended• consolidated State and General Government Sector cash flow statements for the year then ended• notes to the consolidated financial statements, including significant accounting policies• certification by the Treasurer and the Secretary of the Department of Treasury and Finance. <p>In my opinion, the consolidated financial report presents fairly, in all material respects, the financial positions of the State and the General Government Sector as at 30 June 2023 and their financial performance and cash flows for the year then ended in accordance with the financial reporting requirements of Section 24 of the <i>Financial Management Act 1994</i> and applicable Australian Accounting Standards.</p>
Basis for opinion	<p>I have conducted my audit in accordance with the <i>Audit Act 1994</i>, which incorporates the Australian Auditing Standards. I further describe my responsibilities under that Act and those standards in the <i>Auditor's responsibilities for the audit of the consolidated financial report</i> section of my report.</p> <p>My independence is established by the <i>Constitution Act 1975</i>. My staff and I are independent of the State and the General Government Sector in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's <i>APES 110 Code of Ethics for Professional Accountants</i> (the Code) that are relevant to my audit of the consolidated financial report in Victoria. My staff and I have also fulfilled our other ethical responsibilities in accordance with the Code.</p> <p>I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.</p>
Key audit matters	<p>Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the consolidated financial report of the current period. These matters were addressed in the context of my audit of the consolidated financial report as a whole and in forming my opinion thereon, and I do not provide a separate opinion on these matters.</p>

Level 31 / 35 Collins Street, Melbourne Vic 3000
T 03 8601 7000 enquiries@audit.vic.gov.au www.audit.vic.gov.au

Key audit matter	How I addressed the matter
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Recognition and measurement of transport assets

Refer to Note 4.1 *Land, buildings, infrastructure, plant and equipment* and Note 7.5 *Fair value determination of non-financial assets*

Significant spending on capital projects in the transport sector results in large additions to the State's asset base each year.

The State is ultimately responsible for ensuring proper accounts and records are maintained to sufficiently explain the financial impact of these assets on the financial performance and financial position of the State.

I considered this to be a key audit matter because:

- transport assets are financially significant
- capital projects in the transport sector are complex, and each project results in multiple assets being constructed
- a significant degree of management judgement is required to:
 - determine individual assets within a project
 - determine which expenses should be capitalised
 - allocate capital expenses to individual assets
 - determine the fair value of individual assets.
- multiple agencies are involved in the management and delivery of capital projects in the transport sector which makes the timely recognition and derecognition of assets challenging
- Victorian Rail Track (VicTrack) is the custodial owner of a large portion of the State's transport assets. Significant asset accounting issues are being addressed at VicTrack.

My key procedures included:

- assessing management's process to identify individual assets within a project, and the costs directly attributable to those assets
- assessing the results of the work undertaken by management to review work in progress balances and capitalise completed projects
- reviewing management's assessment of the existence of assets, and the completeness and accuracy of asset records
- reviewing the accounting treatment for asset additions, disposals and replacements against the requirements of Australian Accounting standards
- assessing the results of fair value assessments, challenging assumptions contained within, and investigating significant variances
- assessing the potential impact of identified issues on the consolidated financial statements.

Key audit matter	How I addressed the matter
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Recognition and measurement of service concession assets, liabilities and commitments

Refer to Note 4.1 *Land, buildings, infrastructure, plant and equipment*, Note 4.2 *Other non-financial assets*, Note 5.1 *Borrowings*, Note 5.3 *Service concession arrangements* and Note 6.4 *Payables and contract liabilities*

Service concession assets: land, buildings, infrastructure, plant and equipment – \$41.6 billion
 Service concession assets: intangible produced – \$3.4 billion
 Service concession financial liabilities – \$8.2 billion
 Service concession financial liability commitments – \$49.1 billion (nominal value)
 Service concession grant of a right to the operator (GORTO) liabilities – \$19.8 billion
 Service concession hybrid arrangements commitments – \$1.3 billion (nominal value)

- There are three types of service concession arrangements:
- arrangements where the State has contractual obligations to make payments and other contributions to the operators for the construction and operation of the assets
 - arrangements where the State has granted the operators the right to charge the public directly for the use of the assets
 - hybrid arrangements where the State has granted the operators the right to charge the public for use of the asset and the State makes contractual payments and other contributions to the operator.

- I considered this to be a key audit matter because:
- service concession assets, liabilities and commitments are financially significant
 - the requirements of AASB 1059 *Service Concession Arrangements: Grantors* are complex, and their application requires significant management estimation and judgement
 - service concession arrangements and the financial models used to value the assets, liabilities and commitments are complex
 - a significant degree of management judgement is required to determine the key assumptions used in valuing the assets, liabilities and commitments
 - extensive disclosures are required by Australian Accounting Standards which are critical to the users understanding of service concession assets, liabilities and commitments.

- My key procedures included:
- reviewing all contracts, supporting schedules, financial models and professional accounting advice received by the State, where applicable
 - assessing the accounting treatment against the requirements of AASB 1059, and the reasonableness of management judgements made in the application of the standard
 - engaging appropriately qualified independent subject matter experts to review certain valuation methodologies and financial models and assess the:
 - appropriateness of fair value methodologies
 - reasonableness and consistency of assumptions
 - reasonableness of inputs against underlying data and supporting documentation
 - accuracy of models
 - reviewing all other financial models and confirming the judgements applied by management to independent expert reports
 - assessing the completeness and accuracy of service concession assets, liabilities and commitments against the contracts and underlying financial models for each project
 - comparing the reasonableness of asset amounts against actual costs incurred
 - assessing the adequacy of financial report disclosures against the requirements of Australian Accounting Standards.

Key audit matter	How I addressed the matter
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Valuation of defined benefit superannuation liability

Refer to Note 6.5 *Superannuation*

Defined benefit superannuation liability – \$18.9 billion
 The Emergency Services and State Super funds account for \$17.9 billion (94.7 per cent) of the State’s defined benefit superannuation liability (the liability). The Emergency Services Superannuation Board (ESSB) manage these funds.

I considered this to be a key audit matter because:

- the liability is financially significant
- the underlying model used to value the liability is complex
- a significant degree of management judgement is required to determine the method, the model and key assumptions used in valuing the liability
- a small adjustment to an assumption may have a significant effect on the total value of the liability
- ESSB has outsourced core member administration and fund accounting to an outsourced service provider. An independent assurance auditor was engaged by ESSB to report on the design, implementation and operating effectiveness of controls at the service provider
- extensive disclosures are required by Australian Accounting Standards which are critical to the users understanding of the valuation of the liability.

Management engaged an actuary to value the liability as at 30 April, then adjust the value of the liability to account for actual market performance and movements in key assumptions up to 30 June.

My key procedures included:

- gaining an understanding of the design and implementation of key controls over the outsourced arrangement, and then testing their operating effectiveness, including those:
 - supporting the completeness and accuracy of membership data
 - assisting with the management and oversight of the arrangement
- obtaining the independent assurance auditor’s report over the outsourced service provider’s controls and:
 - assessing the adequacy of the scope of work agreed between management and the assurance auditor
 - assessing the professional competence and independence of the assurance auditor
 - considering the relevance of the stated control objectives and controls covered by the assurance report
 - assessing the testing performed by the assurance auditor and the results of the tests
 - assessing the sufficiency and appropriateness of the audit evidence provided by the assurance report
- assessing the professional competence and independence of the actuary
- obtaining the actuarial report and year-end adjustments, and engaging an appropriately qualified independent actuary to assist in obtaining sufficient appropriate audit evidence for the liability and disclosures, including to:
 - assess the appropriateness of the model used to value the liability
 - review the reasonableness of membership data in the model by comparing it to the data in the service provider’s system
 - assess the appropriateness of management's selection and application of the method, significant assumptions and data used to value the liability
 - challenge the reasonableness of key assumptions by comparing against accepted industry benchmarks
 - assess the reasonableness of the reported liability value
- assessing the adequacy of financial report disclosures against the requirements of Australian Accounting Standards.

Key audit matter	How I addressed the matter
<p>Valuation of provision for insurance claims Refer to Note 6.6 <i>Other provisions</i></p> <p>Provision for insurance claims – \$47.0 billion</p> <p>I considered this to be a key audit matter because:</p> <ul style="list-style-type: none"> the provision for insurance claims is financially significant there are several insurance claim categories at the Victorian WorkCover Authority, Transport Accident Commission and Victorian Managed Insurance Authority which make up the provision and must be valued the underlying models used to value the provision are complex the valuation of the provision is subject to significant management assumptions and estimation uncertainty a small adjustment to an assumption may have a significant effect on the total value of the provision extensive disclosures are required by Australian Accounting Standards which are critical to the users understanding of the valuation of the provision. <p>Management engaged actuaries to value the provision as at 30 June.</p>	<p>My key procedures included:</p> <ul style="list-style-type: none"> testing the operating effectiveness of key controls supporting the underlying claims data used in the models reconciling claims data in the models to the data in the Victorian WorkCover Authority, Transport Accident Commission and Victorian Managed Insurance Authority systems assessing the professional competence and independence of management’s actuaries obtaining management’s actuarial reports, and engaging an appropriately qualified independent actuary to: <ul style="list-style-type: none"> assess the appropriateness of management’s selection and application of the methods, significant assumptions and data used to value the provision evaluate the appropriateness of the models used to value the provision challenge the reasonableness of key assumptions by comparing against claims history and accepted industry benchmarks assess the reasonableness of the reported provision value. assessing the adequacy of financial report disclosures against the requirements of Australian Accounting Standards.
<p>Other information</p>	<p>The Treasurer of Victoria is responsible for the Other Information, which comprises the information in chapters 1–3 and 5 of the 2022–23 Financial Report but does not include the consolidated financial report in chapter 4 and my auditor’s report thereon.</p> <p>My opinion on the consolidated financial report does not cover the Other Information and accordingly, I do not express any form of assurance conclusion on the Other Information. However, in connection with my audit of the consolidated financial report, my responsibility is to read the Other Information and in doing so, consider whether it is materially inconsistent with the consolidated financial report or the knowledge I obtained during the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude there is a material misstatement of the Other Information, I am required to report that fact. I have nothing to report in this regard.</p>
<p>The Treasurer’s responsibilities for the consolidated financial report</p>	<p>The Treasurer of Victoria is responsible for the preparation and fair presentation of the consolidated financial report in accordance with Australian Accounting Standards and the <i>Financial Management Act 1994</i>, and for such internal control as the Treasurer determines is necessary to enable the preparation of a consolidated financial report that is free from material misstatement, whether due to fraud or error.</p> <p>In preparing the consolidated financial report, the Treasurer is responsible for assessing the State and the General Government Sector’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 it is inappropriate to do so.</p>

Auditor's responsibilities for the audit of the consolidated financial report

As required by the *Audit Act 1994*, my responsibility is to express an opinion on the consolidated financial report based on the audit. My objectives for the audit are to obtain reasonable assurance about whether the consolidated 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 my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this consolidated financial report.

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

- identify and assess the risks of material misstatement of the consolidated 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 my 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 State and the General Government Sector's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Treasurer
- conclude on the appropriateness of the Treasurer'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 State and the General Government Sector's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the State and the General Government Sector to cease to continue as a going concern
- evaluate the overall presentation, structure and content of the consolidated financial report, including the disclosures, and whether the consolidated financial report represents the underlying transactions and events in a manner that achieves fair presentation
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the State and the General Government Sector to express an opinion on the consolidated financial report. I remain responsible for the direction, supervision and performance of the audit of the consolidated financial report. I remain solely responsible for my audit opinion.

I communicate with the Treasurer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

From the matters communicated with the Treasurer, I determine those matters that were of most significance in the audit of the consolidated financial report of the current period and are therefore key audit matters. I describe these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

MELBOURNE
5 October 2023


Dave Barry
Acting Auditor-General