# 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)**

| | *Budget* | | | *Actual* | *Variance*(ii) |
|---|---|---|---|---|---|
| | 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

## 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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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** | **Steven Bradby** |
| **Melbourne, 4 September 2020** | **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.

| | *Appropriations Act* Annual appropriation ($ thousand) | *Financial Management Act 1994* Section 29 ($ thousand) | Total Parliamentary authority ($ thousand) | Appropriations applied ($ thousand) | Variance[iii] |
|---|---|---|---|---|---|
| **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.

| | | *Appropriations applied* | |
|---|---|---|---|
| Authority | Purpose | 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.

| | *Paid contribution for the year* | | *Contribution outstanding at year end* | |
|---|---|---|---|---|
| | 2019–20 ($ thousand) | 2018–19 ($ thousand) | 2019–20 ($ thousand) | 2018–19 ($ thousand) |
| **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

| | *Parliamentary reports ($ thousand)* | | *Financial statement audit and assurance reports ($ thousand)* | | *Total ($ 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** |

| | *Parliamentary reports ($ thousand)* | | *Financial statement audit and assurance reports ($ thousand)* | | *Total ($ 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

| | *Parliamentary reports ($ thousand)* | | *Financial statement audit and assurance reports ($ thousand)* | | *Total ($ 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

| | *Gross carrying amount ($ thousand)* | | *Accumulated depreciation ($ thousand)* | | *Net carrying amount ($ thousand)* | |
|---|---|---|---|---|---|---|
| | 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 | • Current replacement cost per unit<br>• Useful life of leasehold improvements |
| Other plant and equipment | Current replacement cost | • Current replacement cost per unit<br>• 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)

| 2019–20 | Carrying amount ($ thousand) | Nominal amount ($ thousand) | Maturity dates: Less than 1 month ($ thousand) | 1–3 months ($ thousand) | 3 months–1 year ($ thousand) | 1–5 years ($ thousand) | 5+ years ($ 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<br>No. | 2018–19<br>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 Dat*e 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.