

Financial Audits

This fact sheet provides information on financial audits for parliamentarians, management and those charged with the governance of Victorian public bodies, other users of our audit reports and members of the public.

Our mandate

As Victoria's independent auditor, we provide various assurance services over public sector activities. This fact sheet explains the assurance we provide through our financial audit responsibilities and approach.

We must audit the financial reports of all public bodies annually under Part 3 of the *Audit Act 1994* (the Act).

In addition, the *Financial Management Act 1994* requires us to undertake:

- an audit of the Annual Financial Report of the State of Victoria
- a limited assurance review of the Victorian State Budget (officially referred to as the State's Estimated Financial Statements)
- audits of other public interest entities by request.

The purpose of our financial audits

Through our financial audits, we provide Parliament and others who rely on Victorian public sector financial reports with independent assurance that the information in those reports is reliable. This means they can use the reports with confidence.

In this regard, we help keep the Victorian public sector transparent and accountable to Parliament and the community for its financial management.

Our audit approach

We audit in accordance with standards and ethical pronouncements from the Australian Auditing and Assurance Standards Board, as the Act requires.

We use a risk-based approach. This allows us to focus on auditing aspects in the financial report that are considered material and at a higher risk of being incorrect.

Something is material if it could influence a user's decision or understanding about a matter in the financial report. We use our professional judgement to decide what is material by considering qualitative

and quantitative factors. We use it to make judgements about the:

- balances and disclosures that require detailed audit attention
- amount of audit work we perform
- effect of misstatements.

The 4 phases in a financial audit

There are 4 phases in a financial audit.

<p>Establish the overall strategy</p>	<ul style="list-style-type: none"> • Set the terms of engagement and communicate them to the entity. • Determine audit scope and reporting objectives. • Form an appropriately skilled and independent team.
<p>Plan the engagement</p>	<ul style="list-style-type: none"> • Understand the entity and its environment, including financial reporting processes and controls, and parts of their financial report expected to be material. • Identify and assess any overall risks to the reliability of the financial report and any specific risks that parts of the financial report could be materially incorrect. • Design procedures to address identified risks.
<p>Implement the plan</p>	<ul style="list-style-type: none"> • Implement responses to address overall risks and to address risks for specific parts of the financial report.
<p>Conclude and report</p>	<ul style="list-style-type: none"> • Evaluate evidence gathered from our response procedures, including any errors that the entity has not adjusted in the financial report. • Conclude whether the financial report materially complies with the applicable reporting framework. • Communicate our conclusion to those charged with governance of the entity in our audit report.

Our reliance on the entity's internal controls

The management of each entity we audit is responsible for maintaining suitable accounting records and designing and operating internal controls that prevent and detect fraud and error.

The control environment is an integral part of the entity's governance framework. It demonstrates management's commitment to establishing and executing well-controlled business operations.

We prefer to test and rely on an entity's controls over their financial reporting because this is more efficient. But whether we can do this depends on how effective we think those controls are.

Where we do test controls, we do so for our purposes in the context of our audit. Our controls work in this regard cannot be relied upon by others.

We do not express an opinion on how effective controls are. However, if we find weaknesses in controls, we give these a risk ranking and report them to the entity's management along with our recommendations to remedy them. We expect the entity's management to afford these issues a priority and correct them in a timeframe that reflects the level of risk they pose.

Direct substantive tests

Whether we rely on controls or not, we always directly substantiate material financial report components using several methods. Examples include:

- analysing the entity's financial and non-financial data to identify unusual trends or transactions for further investigation
- agreeing selected transactions and balances to evidence from reliable external sources, such as suppliers, creditors and debtors
- independently recalculating or estimating transactions and balances, and comparing the results to what the entity reported
- engaging our own independent technical specialists to assist us in more complex areas
- data analysis.

The amount of substantiation we do depends on our assessment of how risky the respective financial statement components are and the extent we have relied on the entity's controls.

The assurance we provide in a financial audit

Our [assurance services fact sheet](#) introduces the nature and level of independent assurance we provide through our audits. Our financial audits are reasonable assurance engagements.

Because we focus on material financial report components and do not test everything, we do not provide absolute assurance that they are free from all error. Rather, we give reasonable assurance that they are free from material error.

Our independent audit reports are for the assurance of Parliament, those charged with governance of the entities we audit, other third parties who rely on the financial reports and ultimately the community.

Our audits do not relieve management of their responsibility to maintain proper processes and controls and present their financial reports fairly.

Audit fees

Under the Act, entities are required to pay fees determined by VAGO to cover the reasonable costs and expenses that we incur.

Our actual fees will generally match our initial fee estimate, but may vary in some circumstances, such as:

- unexpected events that change the audit strategy
- delays by the entity that result in significantly higher audit effort
- improvements by the entity that result in significantly lower audit effort.

Better Normal workplace arrangements

Our audit teams work under a hybrid model that combines the best of office and virtual-based work.

We focus on high-quality, high-impact engagement with our clients. Most of our interactions are remote, using either Microsoft Teams or our clients' preferred platforms. However, we remain committed to meeting in person when it matters most, such as when we work with clients on highly sensitive or contentious matters.

The nature of our remote interactions means that we exchange a lot of information with our clients electronically. As such, data security is a key priority and we continually assess our systems for potential risks.

Communication

We progressively communicate with those responsible for the preparation, production and certification of the financial report throughout our engagements, to make sure they understand our approach and any issues that arise.

Key communication documents include our ...	Which ...
engagement letter	sets out the terms on which we undertake our audit and the respective roles and responsibilities of both the preparer and audit.
audit strategy	demonstrates our understanding of the audit context, our assessment of financial reporting risks and our proposed response to these risks.
audit fee letter	provides management with an estimate of the reasonable audit costs based on our audit plan.
management letters	describes significant control and financial reporting weaknesses identified during the audit and provides recommendations to address those weaknesses.
closing report	outlines our detailed observations and results from our implementation response procedures and our conclusion on whether the financial report complies with the relevant reporting framework and is free from material misstatement.
audit report	includes our audit opinion – this is the statutory report we are required to provide and must be appended to the entity's financial report.
independence declaration (where required under specific legislation)	declares that we comply with the independence requirements of the Accounting Professional Ethical Standards Board. We are only required to declare our independence for audits of financial reports where certain legislation applies, such as the <i>Corporations Act 2001</i> .

Access to information

As part of an engagement, we routinely request access to relevant information, such as data or documents. We will also interview, and may request written responses from, relevant personnel.

Section 40 of the Act provides that entities may comply with our requests notwithstanding any confidentiality or secrecy provisions that may otherwise apply.

If an entity does not voluntarily comply with our request, we may then formally compel that request to be actioned. Part 7 of the Act covers our information-gathering powers and duties. This includes the power to compel the provision of information and documents, and for persons to attend and give evidence. We do not routinely use our coercive powers but reserve the right to do so when warranted. The Victorian Inspectorate oversees the use of our coercive powers.

Confidentiality

The Act imposes confidentiality requirements on us and on public bodies involved in our audits.

Section 71 prohibits us from making improper use of any information acquired during the course of or as a result of carrying out functions under the Act, or from divulging or communicating such information except when carrying out such functions.

Section 72 of the Act applies to a person who receives or obtains confidential information from us under the Act. They must not provide or disclose that information except in the circumstances specified in subsection 72(2) of the Act.