

# Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2017–18

Tabled 24 October 2018

VAGO

This presentation provides an overview of the *Auditor-General's Report on the State of Victoria's Annual Financial Report for 2017–18*.

## Overview



### Matters arising from our audit of the 2017–18 Annual Financial Report of the State of Victoria (AFR)



#### Financial sustainability of:

- general government sector (GGS)
- public financial corporations (PFC)
- public non-financial corporations (PNFC)



#### Audit opinions on:

- financial statements of 265 public sector entities
- common internal control deficiencies

Our report on the 2017–18 Annual Financial Report of the State of Victoria (AFR) provides Parliament with information about matters arising from our financial audit of the AFR.

It provides our assessment of the financial sustainability of the three sectors that make up the state's finances at 30 June 2018—the general government sector (GGS), public financial corporations (PFC) and public non-financial corporations (PNFC).

## Overview



Clear audit opinion issued



State financially well-positioned and continues to operate sustainably

We issued clear audit opinions this year on the financial statements of the state and the GGS.

We have concluded that the state continues to be financially well-positioned and operates sustainably.

## The most significant transactions



In our report we have commented on two significant and complex transactions we reviewed in 2017–18 to ensure they were appropriately accounted for and disclosed in the AFR.

The West Gate Tunnel project will cost an estimated \$6.7 billion and is expected to be completed by 2022. The estimated state contribution is \$2.7 billion, with the remaining costs to be funded by Transurban. This is conditional on relevant legislation passing through Parliament.

The Metro Tunnel project will deliver a new underground rail network that will cross Melbourne and join two existing rail lines. Construction will cost the state an estimated \$11.1 billion and is expected to be completed by 2025.

## Results of audits and internal controls



Clear financial report audit opinions for 33 significant state-controlled entities



Internal control environments generally strong

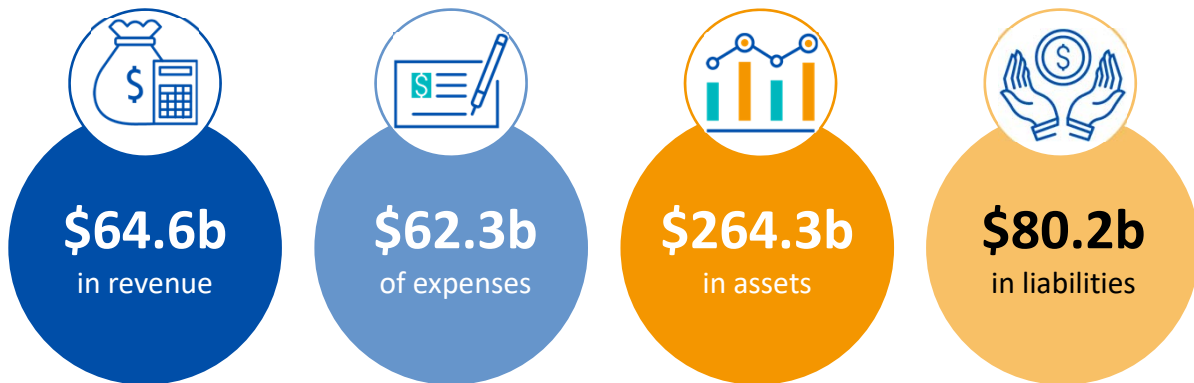


IT risks identified

Thirty-three state-controlled entities make up the majority of total state revenue, expenses, assets and liabilities. We focus our attention on these entities when forming an opinion on the AFR. In 2017–18, we issued clear audit opinions on the financial statements of all 33 entities.

We found internal control environments were generally strong at the 33 significant state-controlled entities. However, we continue to identify IT risks. Resolving these gaps is particularly important given the increasing risks of hackers and cyber attacks.

## Financial sustainability of the GGS



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The GGS consists of 187 entities that provide goods and services significantly below their production cost. In 2017–18, the sector generated \$64.6 billion in revenue and incurred \$62.3 billion of expenses. At 30 June 2018, it reported assets valued at \$264.3 billion and liabilities of \$80.2 billion.

## Financial measures and outcomes—GGS



Net operating surplus

\$2.36 billion for 2017–18



Net debt as a percentage  
of gross state product

4.7 per cent at  
30 June 2018



Fully fund superannuation  
liability by 2035

Contributed an additional  
\$1.16 billion in 2017–18

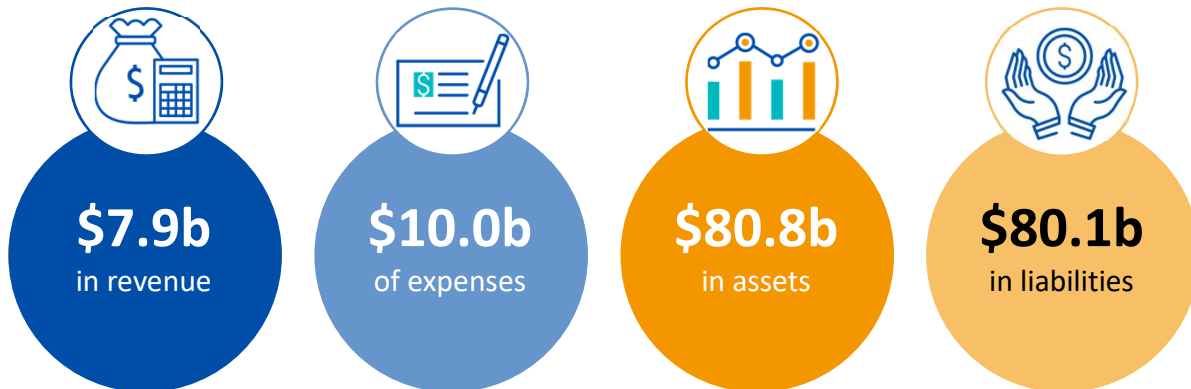
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The state government monitors the GGS's financial outcomes against three key measures:

- net operating surplus
- net debt as a percentage of gross state product, and
- a target to fully fund its superannuation liability by 2035.

In 2017–18, the GGS achieved, or was on target to achieve, the targets set for each of these three key measures, indicating it is operating sustainably.

## Financial sustainability of the PFC sector



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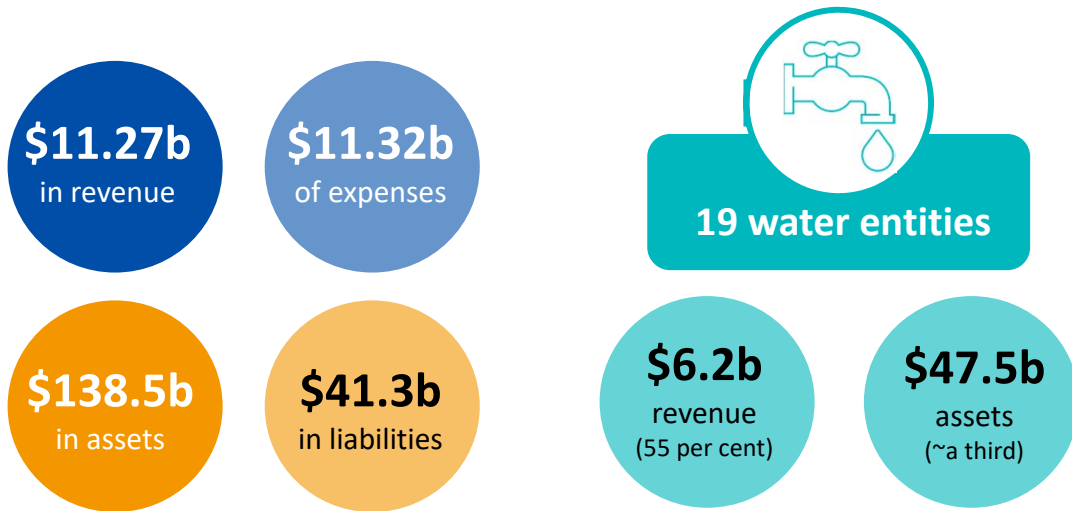
PFCs deal with the financial aspects of the state, including insurance, lending and investment management. They can accept deposits from other state entities and undertake borrowings on behalf of the state.

In 2017–18, the six PFCs generated \$7.9 billion in revenue and incurred \$10.0 billion of expenses. At 30 June 2018, PFCs reported assets valued at \$80.8 billion and liabilities of \$80.1 billion. Most assets and liabilities held by PFCs are financial in nature.

Over the last five financial years the sector has delivered strong financial outcomes.



## Financial sustainability of the PNFC sector



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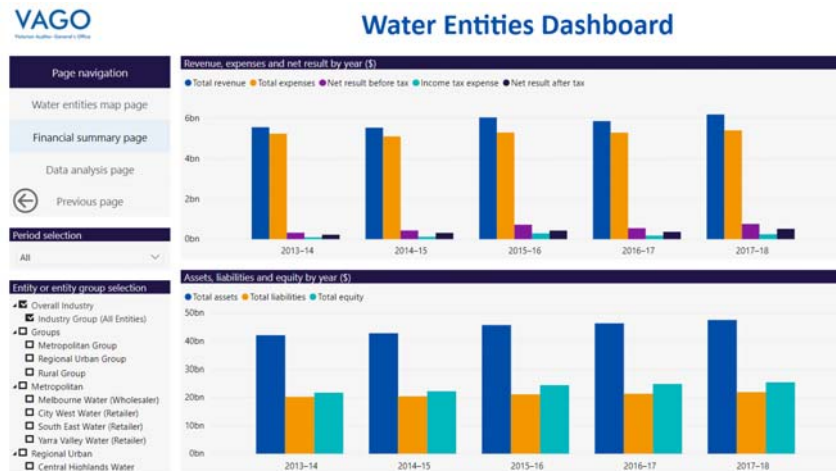
PNFCs provide non-financial goods and services to the public on a user-pay basis. At 30 June 2018, there were 72 PNFCs.

In 2017–18, the sector generated \$11.27 billion in revenue and incurred \$11.32 billion of expenses. At 30 June 2018, the sector reported assets valued at \$138.5 billion and liabilities of \$41.3 billion.

The 19 water entities make up a significant portion of the PNFC financial results. In 2017–18, water entities generated \$6.2 billion in revenue, or 55 per cent of the sector's revenue. At 30 June 2018, they held assets valued at \$47.5 billion, or about a third of the sector's assets.

Despite some challenges at individual water entities, we have assessed the water sector as financially sustainable, with no immediate short-term risks identified. In the longer term, some water entities will need to consider the risks associated with their ability to replace or renew assets and repay debt.

## Water entities – financial information dashboard



[www.audit.vic.gov.au/report/auditor-generals-report-annual-financial-report-state-victoria-2017-18](http://www.audit.vic.gov.au/report/auditor-generals-report-annual-financial-report-state-victoria-2017-18)

We have created an interactive data dashboard summarising the financial statement data for all Victorian water entities. You can find the dashboard on our website.

For further information, please view the full report on our website:  
[www.audit.vic.gov.au](http://www.audit.vic.gov.au)

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