Portfolio Departments and Associated Entities: Results of the 2008–09 Audits

Victorian Auditor-General's Report

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Portfolio Departments and Associated Entities: Results of the 2008–09 Audits

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VAGO

Victorian Auditor-General's Office

Auditing in the Public Interest

The Hon. Robert Smith MLC
President
Legislative Council
Parliament House
Melbourne

The Hon. Jenny Lindell MP
Speaker
Legislative Assembly
Parliament House
Melbourne

Dear Presiding Officers

Under the provisions of section 16AB of the *Audit Act 1994*, I transmit my report on *Portfolio Departments and Associated Entities: Results of the 2008–09 Audits.*

Yours faithfully

D D R PEARSON
Auditor-General

9 December 2009

Contents

Audit summary

This report sets out the results of audits of 208 state entities, comprising 10 portfolio departments and 198 associated entities with 30 June 2009 balance dates. It is the fifth of six reports to be presented to Parliament covering the results of our audits of 2008–09 financial reports.

This report informs Parliament about significant issues arising from the financial audits of the portfolio departments and associated entities, augmenting the assurance provided through audit opinions issued on financial statements that are included in their respective annual reports. The report also comments on financial management and reporting of the entities and better practice initiatives. It provides recommendations for improving financial reporting preparation processes and internal control.

Further, it assesses the financial sustainability of 51 entities that are not budget dependent because they primarily generate their own revenue and also provides a summary of key changes to the financial reporting framework.

Results of audits

Reporting framework

The principal legislation governing financial reporting by public sector entities is the *Financial Management Act 1994* (FMA). For companies it is the *Corporations Act 2001*.

One hundred and seventy-seven of the 208 entities prepare their financial reports in accordance with the FMA. Twenty-five entities prepare their financial reports in accordance with the *Corporations Act 2001*. The remaining six prepare their financial reports in accordance with other requirements or legislation such as the *Supreme Court Act 1996*.

The FMA requires entities to submit annual reports to the relevant minister. These should be tabled in Parliament within four months of the end of the financial year, and include financial reports for the entity and any controlled entities which must be prepared and audited within 12 weeks. Entities reporting under the *Corporations Act 2001* are required to report to their members within four months of the end of the financial year. The remaining six entities complete their financial statements under time frames determined by management.

Audit opinions issued

All entities had finalised their financial reports. Melbourne Central City Studios received a qualification in relation to 2007–08 comparative figures. Further, 20 entities, principally cemeteries and professional medical registration boards, while receiving an unqualified audit opinion, warranted an emphasis of matter, relating to proposed legislative changes. The remaining entities received clear audit opinions.

Quality of reporting

The quality of financial reporting can be measured by the timeliness and accuracy of the preparation and finalisation of the financial report.

With respect to timeliness:

- 80 per cent of entities reporting under the *Financial Management Act 1994* were finalised within 12 weeks. This is an improvement from the prior year (140 of 179).
- 96 per cent of entities reporting under the *Corporations Act 2001* were finalised within four months, compared to 95 per cent for 2008.

The preparation process by departments needs improvement as 40 per cent of departments did not have sufficiently rigorous quality control and assurance processes to assure the accuracy and completeness of their financial report

Effectiveness of internal control

Internal control encompasses the systems, policies and behaviours established by governing bodies and management to reliably and cost effectively meet their objectives.

In undertaking financial audits we assess the effectiveness of internal controls, established by management, over the reliability of financial reporting. While it is not our responsibility to form an opinion on internal controls, we nevertheless raise with management any control weaknesses or breakdowns we identify.

To the extent we examined those controls, the strength of internal control systems and processes overall was generally satisfactory though variable between departments and associated entities. Specifically a number of important internal control mechanisms required strengthening:

- unreconciled state Crown land holdings of $150 million
- information system security and change management weaknesses
- adequate agreements for outsourcing arrangements were not in place between CenITex and the six departments being serviced.

These matters, together with other audit findings and recommendations, were reported to the relevant governing bodies and their management teams in audit management letters.

This year, as part of our cyclical approach to reviewing significant aspects of corporate governance and financial management, we carried out a review of fraud risk assessment, management of leave and audit committees for the 10 departments.

Appropriate risk assessment requires management to identify and assess the risks for the entity to achieve its business objectives, including compliance with applicable laws and regulations. We assessed the 10 departments and found that three departments do not currently perform a comprehensive fraud risk assessment.

We reviewed departmental management of recreation, sick leave records and leave requests submitted, but not yet processed against individual leave balances. This disclosed the need for tighter controls over the processing of leave requests, and that while the number of staff with excess recreation leave balances has reduced, marginal increases in the total excess leave balances during 2008–09 has increased the cost of this excess leave by $2.2 million or 22 per cent. Further, while average sick leave taken is at the lower end of experience in other jurisdictions, it was likely the better performing departments' initiatives aimed at reducing sick leave were effective.

Our review of the 10 departmental audit committees against better practice criteria found an overall satisfactory situation.

Financial sustainability

Financial sustainability analysis has been provided in this report for the 51 entities that are not budget dependent because they primarily generate their own revenue.

The 10 departments are not included in this analysis of financial sustainability as they are fully funded by government.

To be financially sustainable, entities should have the capacity to meet current and future expenditure as it falls due. They should also be able to absorb foreseeable changes and financial risks as they materialise.

Insight into financial sustainability is obtained from analysis of interrelated financial sustainability indicators over a four year trend period. These indicators reflect each entity's revenue raising performance and expenditure control, and indicate whether current revenue and expenditure trends and policies are sustainable.

There are four core indictors: underlying result; liquidity; self-financing; and capital replacement. These indicators have been applied to the published financial information of the reported entities for the financial periods from 2005–06 to 2008–09. No one indicator is sufficient to determine long-term sustainability; however, the underlying result is the most significant.

The key observations from the analysis are:

- the financial sustainability analysis showed 27.5 per cent (14 of 51) of entities had a high financial sustainability risk. This was a result of the entity obtaining a high risk average rating for the underlying result or liquidity indicator or both indicators.
- Premier and Cabinet and the Innovation, Industry and Regional Development portfolio entities are assessed as having an overall high financial sustainability risk.

The financial sustainability indicators used in this report highlight trends that need to be monitored arising from the adoption of accrual accounting principles. Notwithstanding, the application of sector neutral Australian Accounting Standards and accrual accounting by entities, it should be noted that the current funding model does not provide depreciation funding until capital requirements are determined.

Where the departmental funding model applies, capital grant funding is allocated strategically across the portfolio rather than progressively to each entity. However, where entities are governed by boards that are accountable for financial management and performance, this situation blurs accountability for the financial and operational performance of the individual entities. Successfully resolving this will be a significant step towards realising the benefits of implementing accrual accounting.

Financial reporting framework

The financial reporting framework essentially comprises the *Financial Management Act 1994* and Australian Accounting Standards.

There have been a number of changes to the framework for the 2008–09 year, which has impacted on how financial statements are prepared. Further changes have been foreshadowed to respond to the global financial crisis and the Australian Accounting Standards Board's review of public sector specific standards.

Our review of the financial reporting framework that was operating for the 2008–09 year found that:

- different accounting policies have resulted in a variance of $8 billion between the valuations of rail infrastructure assets in the state's 2008–09 annual financial report and the 2008–09 financial reports of rail sector entities
- land under roads, valued at $18.6 billion, has been included in the Annual Financial Report of the State of Victoria (AFR), which is not recognised in VicRoads' financial report for 2008–09
- fifty-eight entities adopted the new financial report presentation format, consistent with the principles of AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. This was a pleasing outcome, however, as not all general government entities took this approach, financial statements are being presented differently across the general government sector, which limits comparability.

The Department of Treasury and Finance (DTF) is conducting a review of the current public finance legislation and practices. This is expected to be completed in early 2010.

DTF sought public comment during October 2008 on what constitutes best practice public finance legislative frameworks. Key matters raised in our response to that request included the need for:

- a specific public sector principle-based definition of ‘control’ should be developed in legislation in order to provide clear and unequivocal guidance as to what constitutes a public sector entity
- coverage of audit legislation to include all matters relating to public money and public property to be strengthened
- legislative financial reporting obligations to apply differentially according to the level at which each entity operates while maintaining public accountability and transparency of public sector entities
- consideration to be given to determining whether the current accounting standards remain sufficient and appropriate in meeting the needs of users of public sector financial reports
- strengthening the requirements for timely public sector reporting, having regard to developments in other jurisdictions and the private sector
- greater use of reliable and relevant performance measures for public sector performance reporting
- a greater focus on outcome and sustainability reporting, with audit attestation.

Recommendations

Number	Recommendation	Page
1.	The Department of Treasury and Finance should work with portfolio departments to improve financial reporting processes.	16
2.	DSE should establish a target date for the finalisation of the reconciliation of the records for the state’s Crown land holdings.	21
3.	Entities should regularly review IT system user access levels to confirm they continue to be appropriate and also enforce password complexity.	22
4.	Arrangements for the management of outsourced service providers should be in place, with timely monitoring of performance against these arrangements.	24
5.	Departments should undertake comprehensive fraud risk assessments and review their fraud framework within acceptable intervals aligned with risk.	26

Recommendations – *continued*

Number	Recommendation	Page
6.	Departments should strengthen leave management processes to assure timely processing of leave requests, undertake more rigorous management of recreation leave balances and take preventative action when experiencing higher than average sick leave absences.	34
7.	Portfolio entities should adopt a core suite of financial sustainability indicators.	72
8.	The Department of Treasury and Finance should lead the adoption of consistent asset recognition and valuation and financial reporting policies for whole-of-government reporting and entity level reporting for 2009–10 to improve the consistency and comparability of financial reports within the Victorian public sector.	79
9.	The Department of Treasury and Finance and sector entities should coordinate their monitoring and responses to proposed accounting standards.	81

General

The total cost of preparing and printing this report was $290 000.

Audit Act 1994 section 16—submissions and comments

Introduction

In accordance with section 16(3) of the *Audit Act 1994* a copy of this report, or relevant extracts from the report, was provided to all relevant entities with a request for comments or submissions.

The comments and submissions provided are not subject to audit nor the evidentiary standards required to reach an audit conclusion. Responsibility for the accuracy, fairness and balance of those comments rests solely with the entity.

Submissions and comments received

RESPONSE provided by the Secretary, Department of Treasury and Finance

The Department of Treasury and Finance (DTF) notes the recommendations made by the Auditor-General in this report, which address issues arising from 2008–09 financial audit cycle, and offers the following comments:

Financial Sustainability

DTF notes the Auditor-General's assessment of the financial sustainability of 51 non-budget dependent entities using several financial ratios, but cautions interpretations of these assessments which are impacted by the State's capital funding model. The model provides for the central strategic management of cash and capital funding to ensure the allocation to entities is consistent with whole of government priorities and needs. Accordingly, funded entities are generally not annually funded for depreciation, which impacts on the reported operating results by these entities. It is DTF's view that this model is appropriate for the Victorian public sector and appropriately provides for the strategic management of capital funding and cashflow to best achieve desired whole of state outcomes.

Recommendation 1*—The report identifies scope to further enhance current financial reporting. DTF will continue to work closely with agencies to identify and support improvement opportunities, particularly focusing on the provision of timely advice on complex and contentious accounting policy issues, and on data submission requirements. In addition, internal quality assurance processes will continue to be refined in order to meet continuous improvement outcomes.*

RESPONSE provided by the Secretary, Department of Treasury and Finance – continued

Recommendation 8*—The need for public sector financial reporting to present information consistently, and therefore ensure optimal utility and comparability is also acknowledged. To this end, DTF will continue to support and facilitate the adoption of consistent asset recognition and measurement policies across the Victorian public sector.*

Recommendation 9*—DTF is committed to the achievement of high quality financial reporting across the Victorian public sector. To this end, DTF will continue to demonstrate leadership in engaging with public sector agencies and the accounting profession to influence developments in accounting standards and provide timely guidance and support to agencies on their implementation. Major policy instruments supporting the consistent implementation of accounting developments across the public sector include the annual issue of the Model Report for Victorian Government Departments and relevant Financial Reporting Directions under the authority of the Financial Management Act.*

RESPONSE provided by the Secretary, Department of Health, as relevant Secretary of the former Department of Human Services to which the report relates

Overall I believe the report is fair and informative. For most draft sections sent to me I have no comments as the matters raised by VAGO are statements of fact or general statements of best practice.

I would like to provide some brief responses in relation to leave management and cemetery trusts sustainability indictors and financials as follows.

Chapter 2*—The department's corporate reporting information system (InfoCentre) is widely used by executives to monitor leave and to customise HR reports for monthly reporting. An improvement to the system and training was delivered to HR managers and regional executives during 2009 to strengthen its usage and application. Furthermore, as of January 2009 HR data on sick leave usage and excess recreation leave is included in the quarterly executive performance report (EPR) as key performance indicators. Key operational areas that have high sick leave usage have strategies in place to manage this. The HR Information System Strategy has a number of improvements planned to address unprocessed leave.*

Chapter 3*—The VAGO sustainability indicators are generally relevant to the cemeteries sector as it is wholly self funded. However, a number of cemetery trusts accept pre-paid fees for internments which are often years ahead of need. Trusts invest these fees in longer term (non-current) deposits which result in liquidity ratios being distorted as pre-paid fees that are considered current liabilities are not matched by current investments. Trusts that exhibit significant underlying financial sustainability issues will be monitored by the department and where necessary assisted to implement recovery plans.*

RESPONSE provided by the Secretary, Department of Health– continued

In respect of trusts not being able to reliably measure perpetual maintenance obligations, an extensive study of minimum maintenance standards is currently being conducted that will form the basis of future calculations. This study is being overseen by the department and sector representatives.

RESPONSE provided by the Secretary, Department of Justice

The Department of Justice has noted your recommendations and will continue to work with material entities in the Justice portfolio to improve the timeliness of reporting and to address the issues relating to leave identified in the report.

RESPONSE provided by the Secretary, Department of Planning and Community Development

The report offers a valuable assessment of the Department of Planning and Community Development (DPCD) and its associated entities. While DPCD is generally in agreement with the overall proposed report, there is one specific area that we would like to bring to your attention.

As with the previous year, the Department continues to have concerns regarding the use of financial sustainability measures particularly for the State Sport Centre Trust (SSC) and the Queen Victoria Women's Centre Trust (QVWC). Any analysis about the financial performance and sustainability of the SSC and QVWC should be considered in light of their current business models which are as follows:

- *Under the SSC model any large new capital projects or substantial refurbishments are funded from government appropriations. These have included the $50 million redevelopment of the Melbourne Sports and Aquatic Centre in Albert Park. The redevelopment, which included the construction of an Olympic sized outdoor pool and hydrotherapy pool, have been used to host major international events such as the Commonwealth Games in 2006 and FINA World Championships in 2007.*
- *The QVWC model is underpinned by the former Queen Victoria Memorial Hospital heritage building which was gifted to the Trust in 1994.*

Based on the business model of both Trusts, a more suitable measure of sustainability and financial performance is the operating result excluding depreciation. It is appropriate to exclude depreciation in this circumstance as the Trusts are generally not required to fund significant capital expenditures.

For the SSC, the average net result over the four years from 2005–06 to 2008–09 with depreciation excluded was an average surplus of $331,000. This equates to an underlying result of 2.75 per cent (compared to -41.94 per cent cited in your report). For the QVWC, the average net result over the four years from 2005–06 to 2008–09 with depreciation excluded was an average surplus of $75,000. This equates to an underlying result of 8.24 per cent (compared to -34.28 per cent cited in your report).

RESPONSE provided by the Secretary, Department of Planning and Community Development – continued

I would also like to draw your attention to the calculation used to derive the Portfolio average which is also on page 59 of the report. This calculation is based on a simple average of DPCD entities. This method of calculation does not reflect the relative differences of magnitude of the various operating positions of the entities listed. Therefore, it would be more appropriate to calculate a weighted portfolio average, which would give a better, more robust indication of the total overall financial sustainability of the Department's portfolio entities.

RESPONSE provided by the Secretary, Department of Premier and Cabinet

In relation to the findings regarding the sustainability risk, DPC continues to monitor the financial performance of the Arts agencies.

RESPONSE provided by the Residential Tenancies Bond Authority

Recommendation 2.3 Arrangements for the management of outsourced service providers should be in place, with timely monitoring of performance against these arrangements.

The RTBA actively monitored the operations of the private provider from the commencement of service delivery on 30 June 2008. In addition to the direct monitoring provided by the RTBA, the contract for services required the provision of independent assessment to confirm the effectiveness of security and other system and environmental controls. This report was due at the end of the financial year. Despite repeated requests and reminders from the RTBA, the independent report was provided late. When provided, the independent report formally advised of a number of weaknesses in the operation of the contract, especially in the early days of operation. The RTBA and the provider had already identified and remedied most of matters identified. The RTBA has reinforced the need for the independent report for future years to be made available in a more timely manner.

The RTBA accepts the recommendation.

RESPONSE provided by CenITex

CenlTex has created a Business Services Catalogue and Service Level Definitions. These documents together with customer purchase orders form the basis of the agreement between CenlTex and its customers.

CenlTex accepts there is still room for improvement in the documentation. An MOU is in draft stage that will put more structure around the relationship and the obligations of each party. CeniTex also acknowledges that the Business Services Catalogue will become more mature (particularly for Application Hosting services) in subsequent revisions.

1 Results of audits

At a glance

Background

This is the fifth of six reports presented to Parliament, covering the results of our audits of public sector financial reports. This report comprises the results of audits of 10 portfolio departments and 198 associated entities with 30 June 2009 balance dates.

The principal legislation governing financial reporting by public sector entities is the *Financial Management Act 1994* (FMA). Companies report under the *Corporations Act 2001*.

Findings

- All entities had finalised their financial reports. **Melbourne Central City Studios** received a qualification in relation to 2007–08 comparative figures and another 20 entities, principally cemeteries and professional medical registration boards, while receiving an unqualified audit opinion, warranted an emphasis of matter, relating to proposed legislative changes. The remaining entities received clear audit opinions.
- The preparation process by departments needs improvement as 40 per cent of departments did not have sufficiently rigorous quality control and assurance processes to assure the accuracy and completeness of their financial report.
- Eighty per cent of FMA entities (142 of 177) met the required time frames across portfolios. This is an improvement from the prior year (140 of 179).
- Ninety-six per cent of Corporations Act entities (24 of 25) met the required reporting time frames compared with 95 per cent in the prior year.

Recommendation

- The Department of Treasury and Finance should work with portfolio departments to improve financial reporting processes.

1.1 Introduction

This report is the fifth of six reports to be presented to Parliament covering the results of our audits of public sector financial reports. The reports in the series are outlined in Figure 1A.

The purpose of this report is to inform Parliament about the significant issues arising from the financial audits of portfolio departments and associated entities, augmenting the assurance provided through audit opinions issued on financial reports that are included in individual annual reports. The report also comments on financial management and reporting and better practice initiatives, provides recommendations for improving internal controls and assesses the financial sustainability of 51 entities that are not budget dependent because they primarily generate their own revenue.

Figure 1A
VAGO reports on the results of audits

Report	Description
Local Government: Results of the 2008–09 Audits	The first report, tabled in Parliament on 11 November 2009, contains the results of the annual audit of 79 councils, 12 entities they control and 12 regional library corporations.
Public Hospitals: Results of the 2008–09 Audits	The second report, tabled in Parliament on 11 November 2009, contains the results of the annual audit of 88 public hospitals, the 22 entities they control, and four associated entities.
Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2008–09	The third report, tabled on 24 November 2009, contains the results of the audit of the State's Annual Financial Report.
Water Entities: Results of the 2008–09 Audits	The fourth report, tabled on 25 November 2009, contains the results of the annual audit of 19 entities, comprising 16 water corporations and three retail distribution companies.
Portfolio Departments and Associated Entities: Results of the 2008–09 Audits	The fifth report, tabled on 9 December 2009, contains a summary of the results of the annual audit of financial reports of the 10 portfolio departments and 198 associated entities with 30 June 2009 balance dates.
Results of Audits for Entities with other than 30 June Balance Dates	The sixth of these reports, to be tabled by mid 2010 provides the results of the annual audit of financial reports of 120 entities in Victoria's public sector which have a financial year other than 30 June 2009. These entities principally comprise 76 higher education entities, 34 vocational training entities and Victoria's five alpine resorts.

Source: Victorian Auditor-General's Office.

1.2 Financial audit framework

The financial audit framework applied in the conduct of the 2008–09 audits of departments and associated entities is set out in Figure 1B.

Figure 1B
Financial audit framework

Planning

Planning is not a discrete phase of a financial audit, rather it continues throughout the engagement. However, initial audit planning is conducted at two levels:

- At a high or entity level, planning involves obtaining an understanding of the entity and its environment, including its internal controls. The auditor identifies and assesses: the key risks facing the entity; the entity's risk mitigation strategies; any significant recent developments; and the entity's governance and management control framework.
- At a low or financial reports line item level, planning involves the identification, documentation and initial assessment of processes and controls over management, accounting and information technology systems.

The output from the initial audit planning process is a detailed audit plan and a client strategy document, which outlines the proposed approach to the audit. This strategy document is issued to the client after initial audit planning and includes an estimate of the audit fee.

Conduct

The conduct phase involves the performance of audit procedures aimed at testing whether or not financial statement balances and transactions are free of material error. There are two types of tests undertaken during this phase:

- Tests of controls, which determine whether controls identified during planning were effective throughout the period of the audit and can be relied upon to reduce the risk of material error.
- Substantive tests, which involve: detailed examination of balances and underlying transactions; assessment of the reasonableness of balances using analytical procedures; and a review of the presentation and disclosure in the financial reports, for compliance with the applicable reporting framework.

The output from this phase is a final (and possibly an interim) management letter which details significant findings along with value-adding recommendations on improving controls and processes. These documents are issued to the client after any interim audit work and during the reporting phase.

Reporting

The reporting phase involves the formal presentation and discussion of audit findings with the client management, and / or the audit committee. The key outputs from this process are:

- A signed audit opinion, which is presented in the client's annual report alongside the certified financial reports.
- A report to the minister responsible for the entity of significant findings identified during the audit
- A report to Parliament on significant issues arising from audits either for the individual entity or for the sector as a whole.

Source: Victorian Auditor-General's Office.

1.3 Scope

This report includes the results of the audits of financial reports of the 10 portfolio departments and 198 associated entities with 30 June 2009 balance dates, as shown in Figure 1C.

Figure 1C
Entities with 30 June balance dates

	FMA		CA		Other		Total	
Portfolio	**2008–09**	**2007–08**	**2008–09**	**2007–08**	**2008–09**	**2007–08**	**2008–09**	**2007–08**
Parliament	2	2	0	0	0	0	**2**	**2**
Education and Early Childhood Development	4	4	0	0	0	0	**4**	**4**
Human Services	32	34	0	0	0	0	**32**	**34**
Innovation, Industry and Regional Development	9	9	7	7	0	0	**16**	**16**
Justice	25	25	1	1	1	1	**27**	**27**
Planning and Community Development	16	16	1	1	0	0	**17**	**17**
Premier and Cabinet	10	10	1	1	0	0	**11**	**11**
Primary Industries	11	12	2	2	0	0	**13**	**14**
Sustainability and Environment	38	38	0	0	0	0	**38**	**38**
Transport	10	10	6	6	0	0	**16**	**16**
Treasury and Finance	20	19	7	5	5	3	**32**	**27**
Total	**177**	**179**	**25**	**23**	**6**	**4**	**208**	**206**

Source: Victorian Auditor-General's Office.

Figure 1C shows a net increase of two in the total number of entities that were subject to audit in 2008–09. This increase is the net result of creations, abolitions and amalgamations of financial reporting entities resulting from machinery of government changes and other executive decisions. Changes to entities subject to audit are provided in Figure 1D.

Figure 1D
Changes to entities subject to audit

New audits	
Innovation, Industry and Regional Development	Melbourne Central City Studios was acquired by the state in November 2008.
Treasury and Finance	Victorian Funds Management Corporation established the following entities to support investment activities: • VFMC Australian Share Trust, which commenced operations on 23 May 2008 • VFMC Investments Pty Ltd, which commenced operations on 25 June 2008 • VFMC Ontario Pty Ltd, which commenced operations on 5 August 2009 • VFMC Finance Trust, which commenced operations on 30 July 2008. State Trustees Limited established the inveST Funds, which commenced operations on 1 January 2009, to support investment activities. CenITex was established on 1 July 2008 and commenced operations on 16 July 2008. CenITex is a new information and communications technology (ICT) set up as a state body to centralise ICT support to government departments and agencies.
Wound up	
Sustainability and Environment	First Mildura Irrigation Trust was dissolved on 19 August 2008. Under section 87(1) of the *Water Act 1989* the Lower Murray Urban and Rural Water Corporation (LMW) was appointed to take over the functions, powers and duties of the First Mildura Irrigation Trust.
Merged with another entity	
Human Services	The Metropolitan Ambulance Service, Rural Ambulance Victoria and Alexandra District Ambulance Service were abolished under section 23 of the *Ambulance Services Act 1986*. The three ambulance services were replaced by one ambulance service, Ambulance Victoria. All powers, assets, liabilities and obligations of the three entities were transferred to the newly created ambulance service, effective from 1 July 2008.
Treasury and Finance	State Trustees Limited Common Funds were restructured on 1 January 2009 and converted into inveST Funds.
No longer audited by the Auditor-General	
Innovation, Industry and Regional Development	The *Medical Institute Repeal Act 2008* abolished the Prince Henry's Medical Institute of Medical Research on 31 December 2008. VAGO dispensed with the requirement to audit the financial statements of Victoria Trade and Investment Office Pty Ltd (VTIO) as provided for in section 8(2) of the *Audit Act 1994.* This determination was made as the financial reporting obligations for VTIO are adequately encompassed in the audit of the Department of Innovation, Industry and Regional Development.
Transferred between portfolios	
Innovation, Industry and Regional Development	In April 2009, the Melbourne Market Authority transferred from the Primary Industries portfolio to the Innovation, Industry and Regional Development portfolio.

Source: Victorian Auditor-General's Office.

1.4 Reporting framework

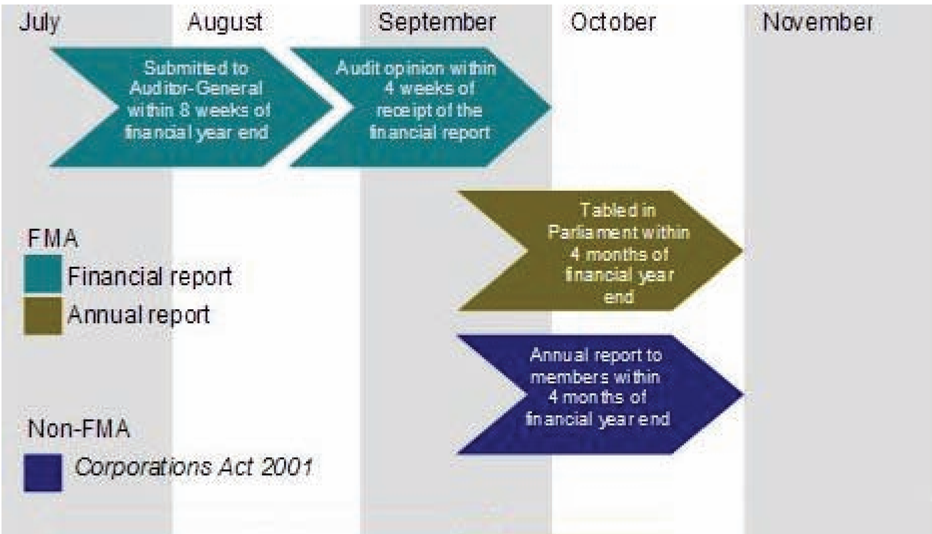
The principal legislation governing financial reporting by public sector entities is the *Financial Management Act 1994* (FMA). Companies report under the *Corporations Act 2001*.

One hundred and seventy-seven of the 208 entities prepare their financial reports in accordance with the FMA. Twenty-five entities prepare their financial reports in accordance with the *Corporations Act 2001*. The remaining six entities prepare their financial reports in accordance with other requirements or legislation such as the *Supreme Court Act 1996*.

The FMA requires entities to submit annual reports to the relevant minister. These reports should be tabled in Parliament within four months of the end of the financial year, and include financial reports for the entity and any controlled entities, which must be prepared and audited within 12 weeks. The 25 stand-alone entities reporting under the *Corporations Act 2001* are required to report to their members within four months of the end of the financial year. The remaining six complete their financial reports under time frames determined by management.

Figure 1E outlines the legislative reporting time frames.

Figure 1E
Legislative reporting time frames



Source: Victorian Auditor-General's Office.

All entities prepare their financial reports in accordance with the Australian Accounting Standards, including the Australian accounting interpretations.

Under the FMA, the Minister for Finance has the authority to issue directions in relation to financial administration issues.

Independent audit opinions add credibility to financial reports by providing assurance that the information is reliable and a clear audit opinion confirms that the financial report has been prepared according to the requirements of relevant accounting standards and legislation.

If the report has not been prepared in accordance with the relevant reporting framework it is issued with a qualified audit opinion. A qualified audit opinion means that the financial report is materially deficient to the reporting framework and therefore is less reliable and useful as an accountability document.

Definitions on qualified and clear audit reports are included in the glossary at Appendix A.

1.5 Audit opinions issued

All entities have finalised their financial reports. Melbourne Central City Studios received a qualified audit opinion and another 20 entities, principally cemeteries and professional medical registration boards, while receiving unqualified audit opinions, warranted with an emphasis of matter, relating to proposed legislation changes. The remaining entities received clear audit opinions.

Figure 1F summarises the status of audit opinions for entities reporting for the financial year ending 30 June 2009 and shows comparative data for 2007–08. Further details are set out in the relevant portfolio chapters.

Figure 1F
Audit opinions issued

	2007–08				2008–09			
Sector	**Clear**	**Qualified**	**Outstanding**	**Total**	**Clear**	**Qualified**	**Outstanding**	**Total**
Parliament	2			**2**	2			**2**
Education and early childhood development	4			**4**	4			**4**
Human services	34			**34**	32			**32**
Innovation, industry and regional development	16			**16**	15	1		**16**
Justice	26		1	**27**	27			**27**
Planning and community development	17			**17**	17			**17**
Premier and Cabinet	11			**11**	11			**11**
Primary industries	14			**14**	13			**13**
Sustainability and environment	37		1	**38**	38			**38**
Transport	16			**16**	16			**16**
Treasury and finance	27			**27**	32			**32**
Total	**204**	**0**	**2**	**206**	**207**	**1**	**0**	**208**
Per cent	**99.0**	**0**	**1.0**	**100.0**	**99.5**	**0.5**	**0**	**100.0**

Source: Victorian Auditor-General's Office.

1.5.1 Qualifications

Figure 1G outlines the one qualified audit opinion issued in relation to the 2008–09 financial year. In 2007–08 no financial reports were qualified.

Figure 1G
Qualifications

Entity	Reason for qualification
Melbourne Central City Studios	Limitation of scope due to the inability of audit to obtain sufficient, appropriate audit evidence regarding the 2007–08 comparative figures in the 2008–09 financial report.

Source: Victorian Auditor-General's Office.

1.5.2 Emphasis of matter

In certain circumstances it is appropriate to draw attention to or emphasise a matter in the audit opinion that is relevant to the users of an entity's financial report but does not warrant qualification of the audit opinion. Figure 1H lists the 20 entities where the audit opinion on their financial report for 2008–09 contains an emphasis of matter.

Figure 1H
2008–09 Emphasis of matter

Entity	Reason for emphasis of matter—uncertainty about continuation as going concern
Cemeteries: • Altona Memorial Park • Anderson's Creek Cemetery Trust • Cheltenham and Regional Cemeteries Trust • Fawkner Crematorium and Memorial Park • Keilor Cemetery Trust • Lilydale Cemetery Trust • Preston Cemetery Trust • Templestowe Cemetery Trust • The Trustees of the Necropolis Springvale • Wyndham Cemeteries Trust	Proposed metropolitan cemetery reforms announced in July 2008 include the creation of two new trusts from the merger of the 10 trusts. The reforms required changes to the *Cemeteries and Crematoria Act 2003* to be enacted. The services, assets and liabilities of these trusts will transfer to the Greater Metropolitan Cemetery Trust and the Southern Metropolitan Cemetery Trust. The *Cemeteries and Crematoria Act 2009* was subsequently passed in Parliament and received royal assent on 27 October 2009.
Industry Supervision Fund	Uncertainty about whether the winding up of the fund will be completed within 2009–10.
Professional medical bodies: • Chiropractors Registration Board of Victoria • Dental Practice Board of Victoria • Nurses Board of Victoria • Optometrists Registration Board of Victoria • Osteopaths Registration Board of Victoria • Pharmacy Board of Victoria • Physiotherapists Board of Victoria • Podiatrist Registration Board of Victoria	The Council of Australian Government executed an intergovernmental agreement to establish a single national scheme for the registration and accreditation of 10 health professions from 1 July 2010. As a result of this agreement it is expected that legislation will be enacted to repeal certain sections of the *Health Professions Registrations Act 2005,* and to enable transfer of services, assets and liabilities of the board to a new national entity.
Yarra Bend Park Trust	A review commissioned by the Department of Sustainability and Environment recommended that the management of Yarra Bend Park be transferred from Yarra Bend Park Trust to Parks Victoria. Enactment of this recommendation requires the *Kew and Heidelberg Lands Act 1933* to be repealed.

Source: Victorian Auditor-General's Office.

1.6 Quality of financial reporting

The quality of financial reporting can be measured by the timeliness and accuracy in the preparation and finalisation of the financial report. The achievement of better practice financial reporting requires entities to have well planned and managed financial report preparation processes. The factors outlined in Figure 1I contribute to the successful preparation of financial reports.

Figure 1I
Important factors in financial report preparation

Demonstrating ownership and commitment
Maintaining robust risk management practices and internal controls
Adopting good financial reporting practices throughout the year
Establishing open and constructive relationships between key stakeholders
Managing staff and other resources effectively
Meeting whole of government responsibilities

Source: Australian National Audit Office Better Practice Guide Preparation of Financial Statements June 2009.

Entities should exhibit the specific practices detailed in Figure 1J, which contribute to the important factors.

Figure 1J
Selected better practice—financial report preparation

Key area	Better practice
Financial report preparation plan	A plan should be established that outlines the processes, resources required, milestones, oversight, and quality assurance practices required in preparing the financial report.
Preparation of shell reports	The preparation and timely provision of a shell financial report to audit allows for early identification of amendments required to the financial report, minimising the need for significant disclosure changes at year end.
Materiality assessment	An assessment of materiality, including quantitative and qualitative thresholds, should be established at the planning phase in consultation with the audit committee. Materiality assists the preparers in assessing potential errors in the financial report.
Monthly financial reporting	Full accrual monthly reporting should be adopted to assist in preparing the annual financial report. This allows for the year-end process to be an extension of the month-end process.
Rigorous quality control and assurance procedures	A review of the supporting documentation, data and the financial report itself should be undertaken by an appropriately experienced and independent officer prior to providing to audit.

Figure 1J
Selected better practice—financial report preparation – *continued*

Key area	Better practice
Supporting documentation	Documentation should be of a high standard and support and validate the financial report and provides a management trail.
Rigorous analytical reviews	Rigorous and objective analytical review procedures should be undertaken during the financial report preparation process to help to improve the accuracy of the financial report.
Reviews of controls/self assessment	Quality control and assurance processes should be sufficiently robust to provide assurance to the audit committee and the Secretary as to the accuracy and completeness of the financial report.
Competency of staff	Preparers of the financial report should have a good understanding and experience in applying relevant accounting standards and legislation. In addition they require project management and interpersonal skills.
Financial compliance reviews	Periodic compliance reviews should be undertaken to identify areas of non-compliance or changes to legislation that impact the financial report.
Adequate security	Sensitive information should be protected and safeguarded throughout the process to prevent inappropriate public disclosure.

Source: VAGO and ANAO Better Practice Guide Preparation of Financial Statements June 2009.

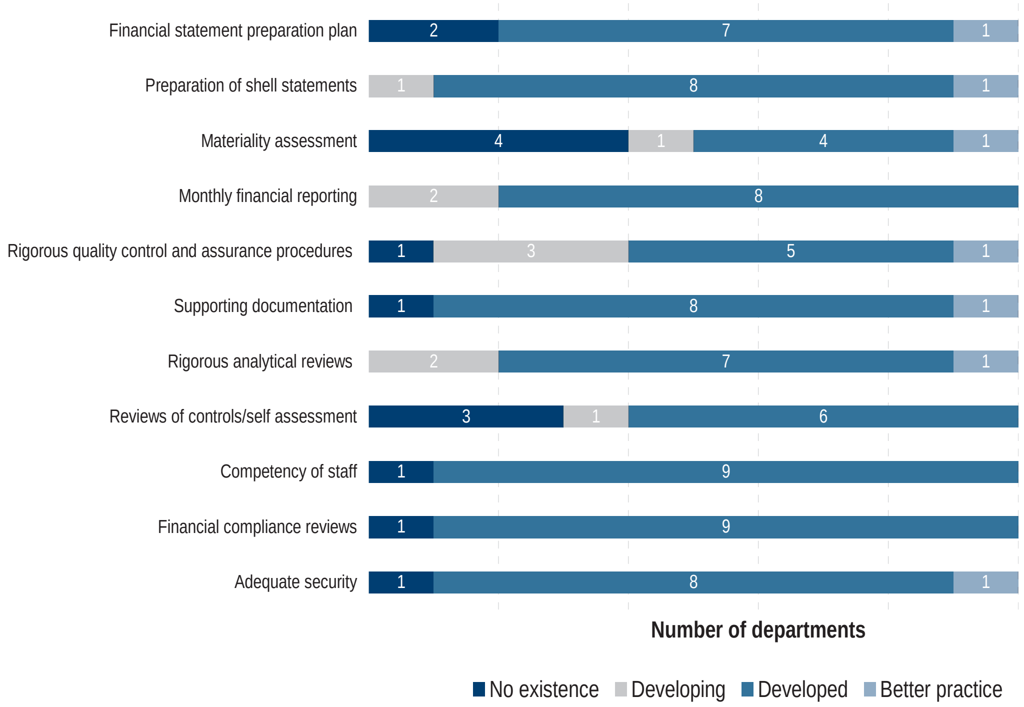
Assessments of departmental performance against better practices were based on the following criteria:

- **No existence**—function not conducted by the department
- **Developing**—partially encompassed in the department’s financial reporting preparation processes
- **Developed**—department has implemented the process, however it is not fully effective or efficient
- **Better practice**—department has implemented the processes, which are effective and efficient.

The ranking of each area reflects our assessment of the adoption, efficiency and effectiveness of each better practice.

Our assessment of the 10 department’s financial report preparation processes against selected better practices for financial report preparation is provided in Figure 1K.

Figure 1K
Better practice results for departmental financial report preparation processes



Source: Victorian Auditor-General's Office.

Some departments had implemented a range of better practices in financial preparation; however, there is scope for continued improvement.

1.6.1 Timeliness

Recognising the stewardship role in relation to the use of public monies that financial reports serve in the public sector, it is important that all public sector entities prepare and publish timely financial information. The usefulness of financial reports is directly related to their timeliness—the later they are produced after year end, the less useful they become.

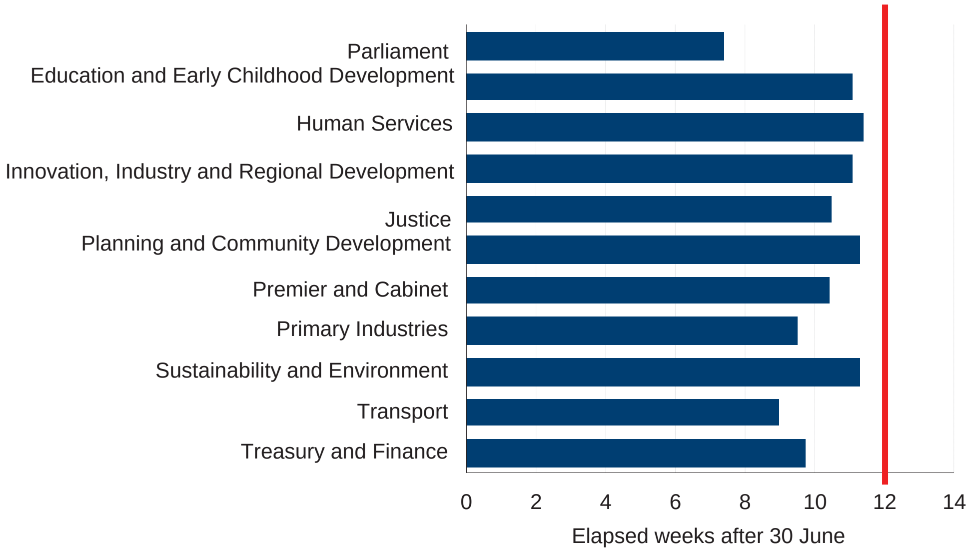
The legislated time frame for state government entities that report in accordance with the FMA, is to finalise their audited financial reports within 12 weeks of the end of the financial year.

Entities that report in accordance with the *Corporations Act 2001* are required to have their financial reports finalised within four months of the end of the financial year.

For 2008–09, 80 per cent (142 of 177) FMA entities completed their financial statements within 12 weeks. This is an improvement from the prior year (140 of 179).

Figure 1L sets out the average time to finalise financial reports of FMA entities.

Figure 1L
Average time to finalise FMA financial reports by portfolio

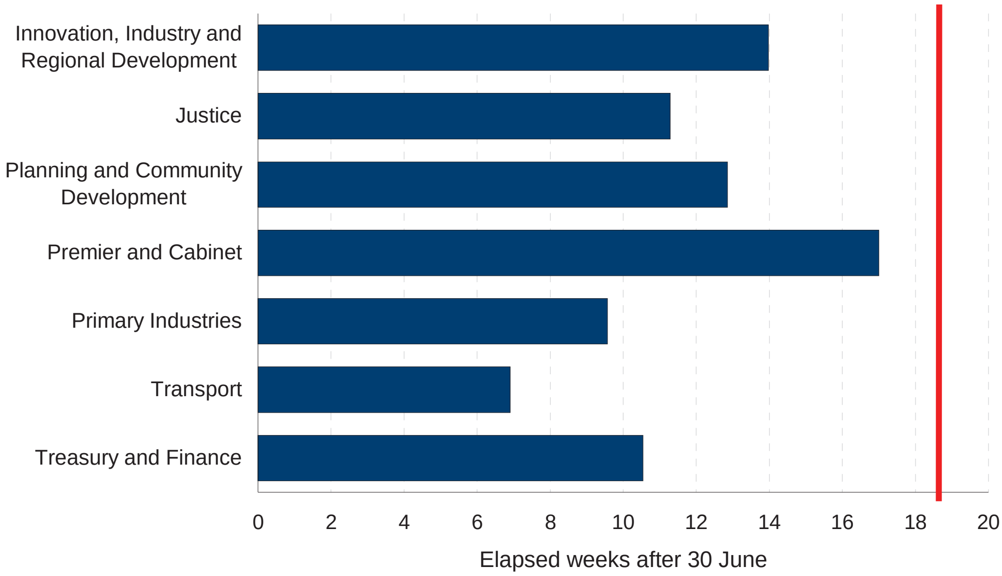


Source: Victorian Auditor-General's Office.

For 2008–09 the number of entities meeting the four month time frame has improved, with 96 per cent (24 of 25) of entities meeting the requirement in 2008–09, compared with 95 per cent in the prior year.

Figure 1M sets out the average time taken by the 25 *Corporations Act 2001* entities to finalise their financial report.

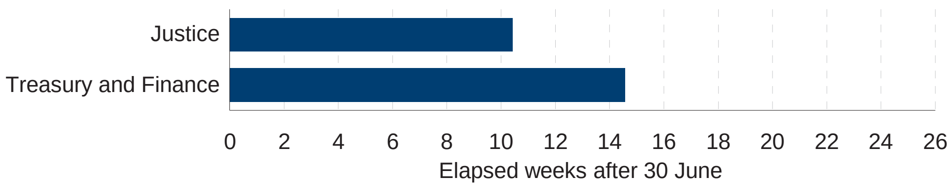
Figure IM
Average time to finalise *Corporations Act 2001* financial reports by portfolio



Source: Victorian Auditor-General's Office.

Figure 1N shows the timeliness of reporting for six entities that report under other requirements or legislation such as the *Supreme Court Act 1996* or Trust Constitutions.

Figure 1N
Average time to finalise other financial reports by portfolio



Source: Victorian Auditor-General's Office.

1.6.2 Accuracy

Another measure of the quality of the draft report prepared by entities is the number, and size of adjustments required to be made to the report after submission for audit. Ideally, there should be no errors or adjustments.

Entity management provide draft financial reports for audit review and clearance before they are certified. This provides an opportunity to identify and correct any financial reporting issues in a timely manner.

When the auditor detects error in the draft financial report they are raised with management. Material errors need to be corrected before a clear audit opinion can be issued. The entity itself may also change its draft report after submitting it to audit, if their procedures find that reported information is incorrect or incomplete.

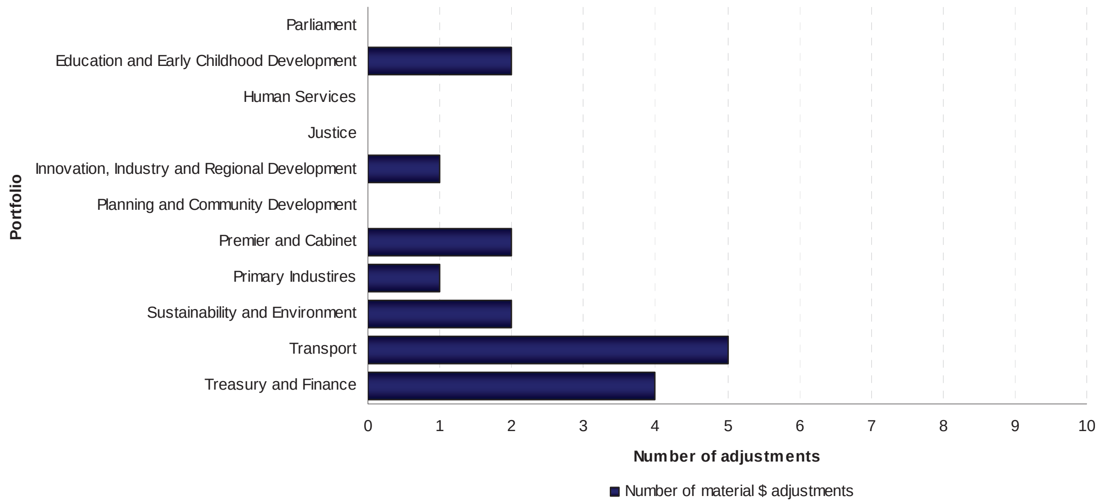
Overall, there are two types of adjustments:

- **financial balance adjustments**—changes to the balances being reported
- **disclosure adjustments**—changes to the commentary or financial note disclosure within the financial report.

An analysis of material financial balance adjustments and significant disclosure adjustments has been conducted over the material entities contained within this report.

Figure 1O shows the number of material adjustments to balances in the financial reports of material entities by portfolio.

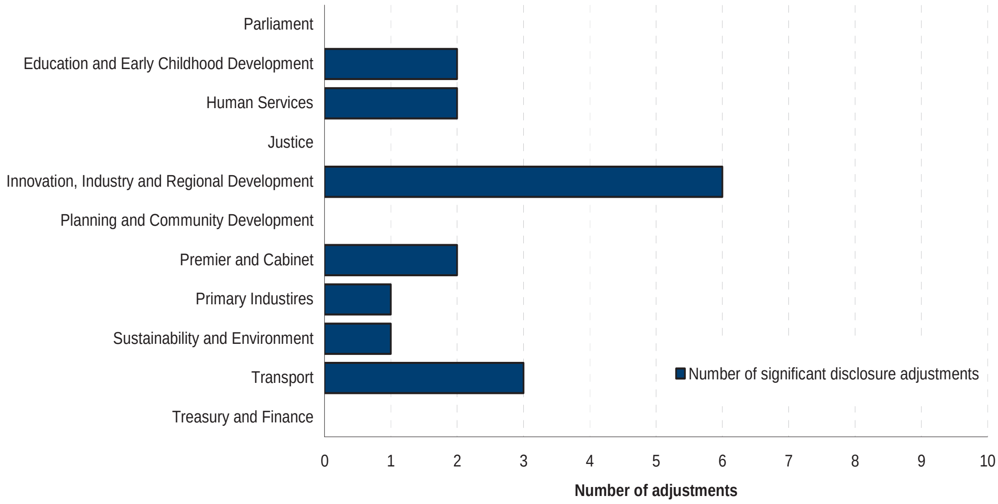
Figure 1O
2008–09 Material entities—Number of material financial balance adjustments by portfolio



Source: Victorian Auditor-General's Office.

Figure 1P shows the number of significant disclosure adjustments to financial reports of material entities by portfolio.

Figure 1P
2008–09 Material Entities—Number of significant disclosure adjustments



Source: Victorian Auditor-General's Office.

Overall, the number of required adjustments to financial reports was minimal.

Entities that are controlled by the state included in this report, are consolidated into the Annual Financial Report (AFR) for the State of Victoria. All entities therefore have an important role in the achievement of the reporting timetable for the AFR and the quality of data used in the preparation of the AFR. In 2008–09 there are 47 entities whose financial operations are significant in the reporting of the consolidated finances of the state. The Department of Treasury and Finance prepares the Annual Financial Report for the State of Victoria. Observations on the quality of information provided by the 47 entities and the achievement by individual entities against the Department of Treasury and Finance's AFR preparation timetable is included in the *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2008–09* (2009–10:6) tabled in Parliament on 24 November 2009.

Recommendation

1. The Department of Treasury and Finance should work with portfolio departments to improve financial reporting processes.

2 Effectiveness of internal control

At a glance

Background

When conducting our financial audit we assess the effectiveness of internal controls, which impact on the reliability of financial reporting.

Findings

- The strength of internal control systems and processes overall was generally satisfactory though variable between departments and associated entities. A number of instances were identified where important internal control mechanisms needed to be strengthened.
- Department of Sustainability and Environment (DSE) has significantly progressed the reconciliation of the state's Crown land holdings to confirm the accuracy of financial reporting. The outstanding unreconciled holdings are valued by DSE at less than $150 million.
- Information system security and change management weaknesses were found in seven entities.
- Adequate outsourcing arrangements were not in place between CenITex and the six departments being serviced.
- Three departments do not currently perform a comprehensive fraud risk assessment.
- Review of management of leave disclosed the need for tighter controls over the processing of leave requests, and that while the number of staff with excess recreation leave balances has reduced, marginal increases in the total excess leave balances during 2008–09 has increased the cost of this excess leave by $2.2 million or 22 per cent. Further while average sick leave taken is at the lower end of experience in other jurisdictions, it was likely the better performing department's initiatives aimed at reducing sick leave were effective.
- Our review of the 10 departmental audit committees against better practice criteria found an overall satisfactory situation.

At a glance – *continued*

Recommendations

- DSE should establish a target date for the finalisation of the reconciliation of the records for the state's Crown land holdings.
- Entities should regularly review IT system user access levels to confirm they continue to be appropriate and also enforce password complexity.
- Arrangements for the management of outsourced service providers should be in place, with timely monitoring of performance against these arrangements.
- Department's should undertake comprehensive fraud risk assessments and review their fraud framework within acceptable intervals aligned with risk.
- Departments should strengthen leave management processes to assure timely processing of leave requests, undertake more rigorous management of recreation leave balances and take preventative action when experiencing higher than average sick leave absences.

2.1 Internal control

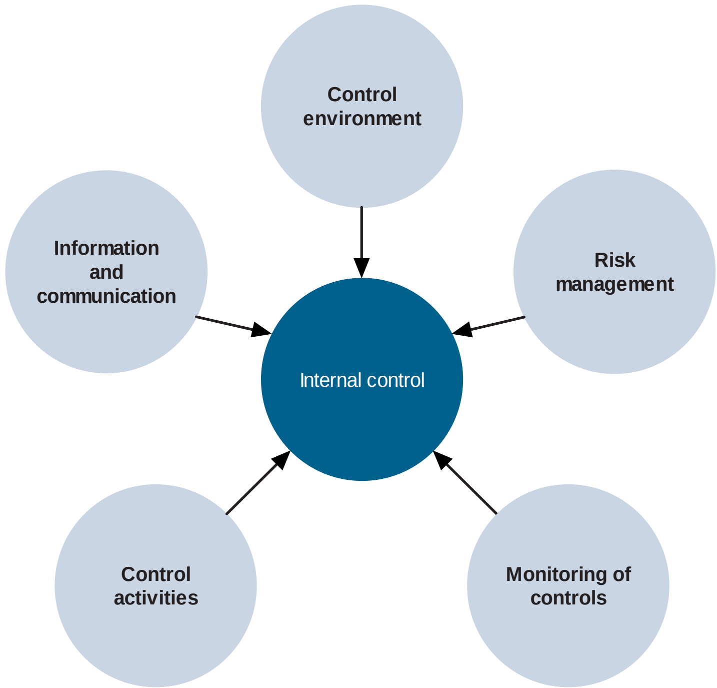
2.1.1 Introduction

Each entity's governing body is responsible for the development and maintenance of its internal control structure. Internal control refers to the systems, processes and procedures that are established by entities to:

- reliably and cost effectively meet their business objectives
- achieve accurate financial reporting
- comply with laws and regulations.

Figure 2A identifies the major components of an effective internal control framework.

Figure 2A
Elements of an effective internal control framework



Source: Victorian Auditor General's Office.

The annual financial audit results in the formation of an opinion on the financial report of an entity. An integral part of this process is to assess the adequacy of the entity's internal control framework and governance processes as they relate to the accuracy and reliability of financial reporting.

Weaknesses in internal control identified during an audit usually will not result in a qualified audit opinion. A qualification is warranted only when weaknesses in internal control give rise to significant uncertainty about the financial information being reported. Often there are other compensating control procedures and audit processes that are used to mitigate the risk of material error. In any event, weaknesses noted during the audit are brought to management's attention.

Though it varied between entities overall, the strength of internal control systems and processes for financial reporting processes was generally satisfactory.

Nevertheless, we identified a number of instances where internal control mechanisms needed to be strengthened. These and other matters were reported to relevant governance bodies and management teams during their respective audits.

2.1.2 Control environment

The objective of the evaluation of the control environment by the audit team is to assess whether management has created a positive and effective environment minimising risks to the entity in the preparation of its financial statements. For the entity a poor control environment diminishes management's ability to achieve its objectives, comply with applicable legislation and consequently increases the risk of fraud.

Internal control weaknesses

We identified instances where important internal control activities, information and communication and monitoring of controls needed to be strengthened. These and other matters were reported to the relevant governing bodies and the management team.

The most commonly identified areas requiring improvement in relation to these elements of internal control were:

- fixed asset management
- information systems security and change management
- management of outsourced arrangements.

Fixed assets

In 2008–2009 land, buildings, infrastructure, plant and equipment for the State of Victoria totalled $155 979.1 million, mainly comprising land of $55 098.4 million, infrastructure systems of $39 126.4 million and buildings of $29 287.4 million.

Controls should be implemented by management to mitigate the risk of misappropriation and inaccurate reporting.

The Department of Sustainability and Environment (DSE) is responsible for managing a register of Crown land holdings. While DSE directly manages and reports the value for about 70 per cent of these holdings, the other 30 per cent is managed and reported by other government entities.

For a number of years, there has been concern about DSE's ability to confirm whether the Crown land holdings managed by other government entities are complete and accurate. This lack of reconciliation could result in financial reporting deficiencies, including:

- **double counting**—Crown land holdings are reported by DSE and also recognised by the managing government entity
- **omission**—Crown land holdings are not registered by DSE nor are they recorded by the managing government entity
- government entities not effectively managing Crown land holdings under their control.

In 2006–07, DSE started the reconciliation of the records of Crown land holdings. DSE is reliant on the full cooperation of government entities to confirm the recording and recognition of the Crown land holdings is complete and accurate. DSE has significantly progressed the reconciliation, with over 85 per cent of holdings confirmed by the managing departments and other key entities. DSE is continuing to work with entities to resolve the residual unconfirmed and unreconciled Crown land, an estimate by DSE values these outstanding unreconciled holdings at less than $150 million at 30 June 2009.

Recommendation

2. DSE should establish a target date for the finalisation of the reconciliation of the records for the state's Crown land holdings.

Information system (IS) security and change management controls

Financial statements are prepared from data obtained from information systems, such as financial management and payroll. As part of the financial statement audit, the security and change management controls in the IT environment supporting the systems that process financial transactions are examined because these controls are key to maintain the reliability and integrity of financial information.

Better practice IS security and change management controls include:

- limiting the number of privileged users who can directly logon to the servers hosting the financial applications and databases
- enhancing the security of the servers and databases hosting the financial applications and limiting the number of machines and processes that can attempt to access these servers
- assigning unique logon identifiers to each user to provide accountability
- using strong passwords to limit the likelihood of unauthorised access
- logging and monitoring activities to identify possible security breaches
- documenting and approving all requests for system changes and testing and approving changes prior to release into production.

Our review found:
- the number of users who have privileged access to servers is higher than indicated by operational requirements
- inadequate standards are applied to the creation and changing of passwords
- software is obsolete and patches for vulnerabilities were not applied in a timely manner
- use of generic logon identifiers, where a number of users know the password and it is not possible to establish who performed a particular action
- events are not logged and logs are not monitored to identify possible security breaches
- change registers do not identify all changes to information systems and there is no documented approval of some changes released into production
- sensitive production is copied into the test environment.

Recommendation

3. Entities should regularly review IT system user access levels to confirm they continue to be appropriate and also enforce password complexity.

Management of outsourced arrangements

As part of government reform, outsourcing delivery of corporate services to the private sector and providing shared service arrangements within government, are mechanisms used:
- to reduce entity costs in comparison with performing the services individually
- to improve the cost effectiveness of service delivery throughout the public sector.

For these arrangements to work effectively:
- suitable contracts, service level agreements (SLA) or memorandum of understanding (MOU) need to be established between the relevant parties so the parameters of the service are defined for the benefit of both the recipient and the provider.
- the provider should have appropriate processes and controls in place to deliver agreed services, provide accurate reporting and to protect the recipients assets and data
- the recipient should appropriately monitor the adequacy of deliverables and obtain assurance that the outsourced entities' controls are operating effectively.

CenITex was established on 1 July 2008 and commenced operations on 16 July 2008 as the product of a merger between the Department of Transport's Shared Services Centre and the Department of Treasury and Finance's Information and Technology Services Division.

At the end of its first year of operation, CenITex had not finalised an agreed MOU or specific corporate service level agreements with their six clients; the Department of Planning and Community Development, the Department of Transport, the Department of Premier and Cabinet, the Department of Primary Industries and the Department of Treasury and Finance (DTF), Department of Sustainability and Environment and their associated portfolio entities.

The Residential Tenancies Bond Authority (RTBA) entered into an agreement with a private provider on 1 July 2008 to outsource the management and registry of bonds. The contract required an independent report over the effectiveness of the controls at the private provider to be provided to RTBA. The RTBA did not implement timely monitoring of this arrangement, only obtaining the independent report subsequent to audit enquiry. The report noted a number of significant control deficiencies, including incomplete daily bank reconciliations, ability to edit unencrypted direct credit payments files and cheque log issues.

The revenue function for the Victorian Professional Standards Council (PSC) is outsourced to another state's equivalent entity. Annual subscription fees from Victorian entities involved in approved schemes are invoiced from and paid to other states' Professional Standards Councils.

The Victorian PSC places reliance on the other states' Professional Standards Councils to provide complete and accurate records. The Victorian PSC is unable to confirm that a process is in place to make sure that all revenue that should be received has been recorded.

For reference, the Queensland Audit Offices' report *Results of Audits performed for 2001–02* identified the following better practices in relation to the outsourcing of IT services:

- business continuity arrangements established and maintained by the service provider
- relevant fees for services, including penalty rates for under performance as per agreed performance targets
- method, frequency and timing of periodic service delivery reporting obligations, including performance measurements
- specific controls and control standards to be applied to services and functions and the associated responsibilities for each control
- defined responsibilities for functions and processes covered within the agreement, as well as identifying which officer within each organisation carries that responsibility
- details of when, how and where the service and functions are to be provided and specification of services that are outside the scope of the agreement
- agreed problem identification and resolution procedures with specific responsible officers.
- entities implement timely monitoring and management of deliverables required from outsource providers.

While specific to IT outsourcing these principles also have relevance to other outsourcing relationships.

Recommendation

4. Arrangements for the management of outsourced service providers should be in place, with timely monitoring of performance against these arrangements.

Corporate governance and financial management

This year, as part of our cyclical approach to reviewing significant aspects of corporate governance and financial management, we carried out a review of fraud risk assessment, management of leave and audit committees for the 10 departments.

Fraud risk assessment

Appropriate risk assessment requires management to identify and assess the risks for the entity to achieve its business objectives including compliance with applicable laws and regulations.

An important aspect of the risk assessment process is the identification and management of fraud risk. A strategic and systematic approach to fraud management requires:

- a fraud policy statement
- fraud risk assessment
- a management plan outlining the actions to address fraud risks identified
- mechanisms to monitor the delivery and effectiveness of the fraud plan.

DTF has established a risk management framework for the public sector. The framework:

- requires departments to adopt the Australian/New Zealand Risk Management Standard
- requires accountable officers to attest in annual reports that the standard has been adopted and built into departments' annual corporate planning and reporting
- assists departments in undertaking risk assessments and developing plans to manage identified risks.

The Standing Directions of the Minister for Finance require departments to establish processes to:

- identify risks associated with the financial management of the department
- assess their likelihood and potential impact under different assumptions
- proactively manage those risks.

These include fraud risk.

Departmental management needs to understand their vulnerability to fraud. Management should periodically complete a fraud risk assessment, tailored to the department's size, complexity, industry and goals. This assessment should include a review of each department's operational procedures.

Better practice entities will exhibit the selected practices for fraud risk assessment and management detailed in Figure 2B.

Figure 2B
Selected better practice—fraud risk assessment and management

Key area	Practice

Fraud policy statements– included in the financial risk management policy	• The entity has a policy that includes:
	  • a broad definition of fraud that focuses the entity on all aspects of fraud, including misappropriation of assets, use of information
	  • staff responsibilities for preventing, detecting, reporting and investigating fraud
	  • assurance that reports of suspected fraud are managed in a professional and confident manner
	  • the potential consequences of fraudulent behaviour, including disciplinary action
	  • reference to the *Whistleblower Protection Act 2001*
	  • processes for the reporting, investigating and response to fraud
	• The fraud policy should be reviewed within two years or as relevant circumstances change.

Fraud management plan	• The fraud management plan should:
	  • detail agency responsibility for fraud management
	  • outline the actions required to mitigate fraud risks identified in the fraud risk assessment, including training activities
	  • identify the information and performance measures needed to assess the effectiveness of the entity's management of fraud.

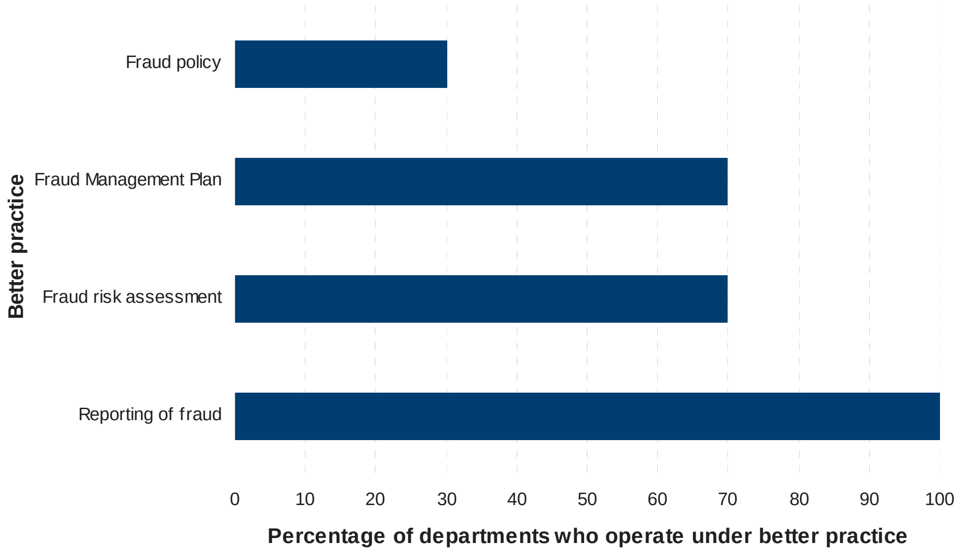
Fraud risk assessment	• A comprehensive fraud risk assessment is undertaken independently or as part of the entity's overall risk assessment • The fraud risk assessment is reviewed and approved by the audit committee or other appropriate management committee.
Reporting of fraud	• Fraud investigations are reported to the governing body. • Reports of suspected fraud by entity staff must are managed in accordance with the prescribed policy and framework.

Source: Victorian Auditor-General's Office.

Findings

This year we assessed the 10 department's against the selected better practices, for fraud risk assessment and management with the results in Figure 2C.

Figure 2C
Better practice results for fraud risk assessment and management



Source: Victorian Auditor-General's Office.

The following observations were made:

- **Fraud policy**—three departments have multiple documents that provide policy and guidance to staff on fraud rather than one comprehensive fraud policy. Three departments do not have a broad definition of fraud that focuses the entity on all aspects of fraud, including misappropriation of assets, use of information. Policies for five departments do not detail the consequences to officers/staff of fraudulent behaviour.
- **Fraud risk assessment**—three departments do not currently perform a detailed fraud risk assessment.
- **Fraud management plan**—three departments do not assign responsibility for preventing, detecting and investigating fraud to specific officers within the department. Four departments do not mandate/require the fraud framework to be reviewed within acceptable intervals.

Recommendation

5. Departments should undertake comprehensive fraud risk assessments and review their fraud framework within acceptable intervals aligned with risk.

Management of leave

As at 30 June 2009, the state government departments employed approximately 30 026.4 full-time equivalent (FTE) staff (28 847 in 2007–08) with annual employee benefits costing $2 540.9 million ($2 327.5 million, 2007–08). Figure 2D provides this detail by department.

Figure 2D
Departmental FTE employees and employee benefit expenditure

Department	FTE departmental staff at 30 June 09 (a)	Employee benefit expenditure at 30 June 2009 ($ million)
Education and Early Childhood Development [(a)]	2 338.3	197.9
Human services	11 412.0	900.0
Innovation, Industry and Regional Development	967.0	84.0
Justice	6 894.0	574.0
Planning and Community Development	1 003.0	96.0
Premier and Cabinet	339.27	71.0
Primary Industries	2 454.7	194.0
Sustainability and Environment	2 950.0	260.0
Treasury and Finance	566.2	64.0
Transport	1 102.0	100.0
Total	**30 026.4**	**2 540.9**

(a) Excludes all school-based staff (teaching and non-teaching staff).

Source: Departmental Annual Financial Reports and Victorian Auditor-General's Office.

The majority of staff employed within the Victorian Public Service (VPS) fall under the requirements of the VPS Agreement 2009. In accordance with the agreement, employees are:

- entitled to 15 days sick leave/carer's leave for each year of employment
- entitled to 20 days recreation leave for each year of employment
- not expected to accrue in excess of 40 days (2 years) recreation leave without agreement with their employer.

The leave entitlements provided in the agreement are designed to promote flexible working arrangements, to maintain the health and well being of employees and to support employees with genuine illness and caring responsibilities.

Efforts to reduce levels of sick leave need to be balanced with maintaining these conditions.

We assessed the 10 departments leave management frameworks by considering the following factors:

- policies and procedures
- monitoring and oversight functions
- risk management.

An adequate leave management framework was found in all departments; however, the effectiveness of the operation of the framework varied between departments. The areas of leave examined were:

- recreational leave (annual leave)
- unprocessed leave (unapproved leave)
- sick leave.

Recreation leave

Recreation leave is a condition of employment that entitles employees to paid time off from their employment each year. Recreation leave needs to be managed effectively by departments at an operational and strategic level as it can present the following risks:

- potential for adverse occupational health and safety outcomes for employees
- impacts on employee productivity and opportunities to take leave
- financial impacts to a department as a result of accumulation of annual leave.

The severity of these risks can be reduced for departments if leave is adequately managed. Figure 2E shows the value of recreation leave balances at 30 June 2009 for departments.

Figure 2E
Recreation leave balances at 30 June 2009 for departments

Department	Recreational leave balance as at 30 June 2009 ($ million)	Recreational leave balance as at 30 June 2008 ($ million)
Education and Early Childhood Development	28.8	25.1
Human Services	60.0	54.6
Innovation, industry and regional development	5.2	4.9
Justice	28.2	28.9
Planning and Community Development	5.4	4.9
Premier and Cabinet	1.9	5.3
Primary Industries	14.9	13.9
Sustainability and Environment	14.5	13.7
Treasury and Finance	4.9	5.4
Transport	8.1	7.1
Total	**171.9**	**163.8**

Source: Victorian Auditor-General's Office.

Recreational leave entitlements should be taken by the end of the calendar year, following the calendar year in which they were accrued, but can be deferred by agreement. Therefore, unless otherwise agreed, the maximum balance a VPS employee is allowed to carry forward is 40 days.

Figure 2F shows the total number of staff with excess leave per department, total days in excess of the 40 allowable days by department and the average days held in excess by the employees with excess leave balances.

Figure 2F
Excess leave balances at 30 June 2009 by department

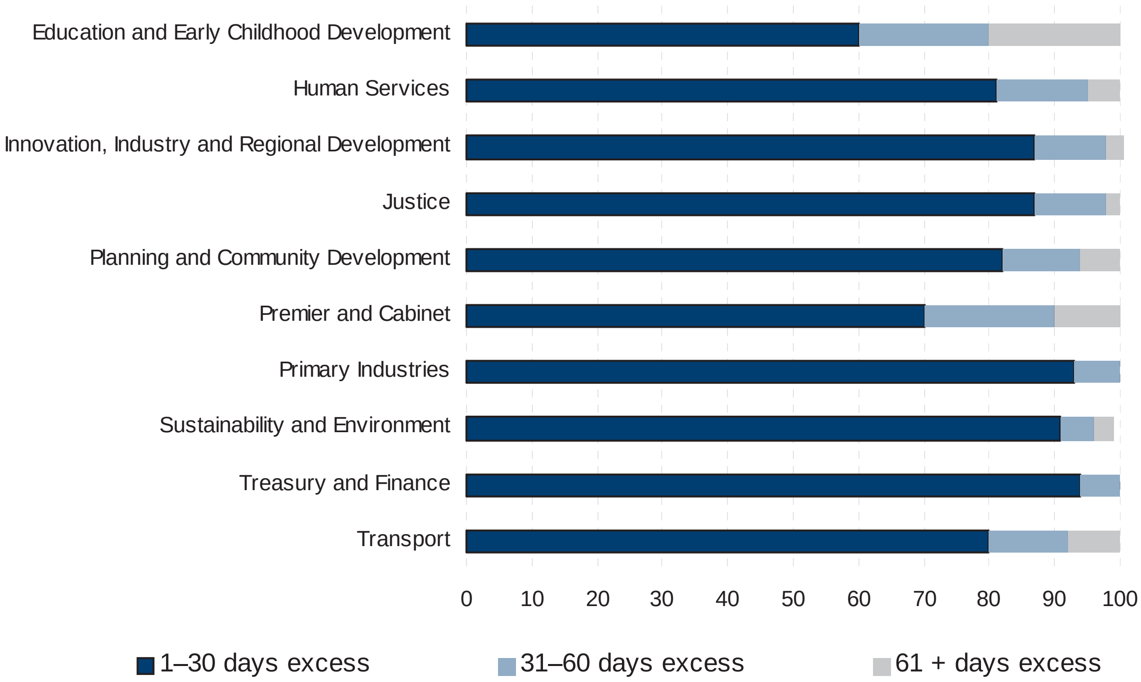
	Number of staff with excess leave balances		Total days in excess (>40 days)		Average days held in excess	
Department	**2008–09**	**2007–08**	**2008–09**	**2007–08**	**2008–09**	**2007–08**
Education and Early Childhood Development [(a)]	266.0	279.0	7896.3	8854.6	29.7	31.7
Human Services	939.0	911.0	17 224.0	15 597.0	18.0	17.0
Innovation, Industry and Regional Development	38.0	39.0	580.0	522.0	15.0	13.0
Justice	245.0	214.0	3 632.0	3 269.0	14.8	15.3
Planning and Community Development	29.0	28.0	552.0	527.7	19.0	19.5
Premier and Cabinet	10.0	61.0	216.0	1293.5	21.6	20.2
Primary Industries	137.0	127.0	1 466.0	1 067.8	11.0	8.4
Sustainability and Environment	93.0	136.0	1 148.0	1 772.0	12.0	13.0
Treasury and Finance	31.0	44.0	285.2	500.0	9.2	11.4
Transport	65.0	75.0	1 572.0	1 626.5	24.0	21.7
Average	**185.3**	**191.4**	**3 457.2**	**3 503.0**	**17.4**	**17.2**

Note: (a) excludes all school-based staff (teaching and non-teaching staff)
Source: Victorian Auditor-General's Office.

There remain employees with significant excess leave balances that need to be managed. Figure 2F shows that while the number of staff with excess leave has reduced there is an overall increase in the total excess leave balances to 3 457.2 days (3 503.0 days 2007–08).

Figure 2G shows an analysis of the percentage of employees with excess leave days by the extent of the excess leave days.

Figure 2G
Excess leave days above the required 40 days by department



Source: Victorian Auditor-General's Office.

Of the total number of departmental employees with excess leave, 80.2 per cent have excess leave between one to thirty days, 13.3 per cent between thirty to sixty days in excess, with the remaining 6.5 per cent having 60 plus days in excess of the allowable 40 days.

The accumulated cost of excess leave for the 10 departments in 2008–09 equates to approximately $12.3 million, ($10.1 million in 2007–08), as shown in Figure 2H below.

Figure 2H
Cost of excess leave by department

Department	Value of excess balances 2008–09 ($ million)	Value of excess balances 2007–08 ($ million)
Education and Early Childhood Development	3.0	3.1
Human Services	5.8	3.5
Innovation, Industry and Regional Development	0.3	0.3
Justice	1.1	1.0
Planning and Community Development	0.3	0.2
Premier and Cabinet	0.1	0.5
Primary Industries	0.5	0.3
Sustainability and Environment	0.4	0.4
Treasury and Finance	0.1	0.2
Transport	0.7	0.6
Total cost to the state	**12.3**	**10.1**

Source: Victorian Auditor-General's Office.

Unprocessed leave

Another risk to effective management of leave is unprocessed leave. Unprocessed leave occurs when individual leave requests are not processed and/or approved, resulting in an overstatement of leave balances and leave liabilities in departmental financial statements.

In 2008–09, we assessed whether departments had unprocessed leave for the 2008-09 financial year and whether the departments had unprocessed leave prior to the 2008–09 financial year.

Six departments had unprocessed leave at 30 June 2009, which dated back to:

- 2004 in one department
- 2005 in one department
- 2006 in one department
- 2007 in two departments
- 2008 in one department.

The estimated cost of unprocessed leave for the 10 departments in 2008–09 equates to approximately $0.5 million.

Figure 2I shows the number of unprocessed leave days held by each department.

Figure 2I
Unprocessed leave for departments

Department	Unprocessed leave for the period 1 July 2008 to 30 June 2009 (days)	Unprocessed leave pre 1 July 2008 (days)
Education and Early Childhood Development	0.0	0.0
Human Services	0.0	0.0
Innovation, Industry and Regional Development	0.0	0.0
Justice	290.8	1.0
Planning and Community Development	61.0	587.0
Premier and Cabinet	20.5	47.5
Primary Industries	163.2	47.0
Sustainability and Environment	541.0	2 582.0
Treasury and Finance	34.6	25.0
Transport	38.1	0.0
Total	**1 149.8**	**3 289.5**

Source: Victorian Auditor-General's Office.

Of the three departments who do not have unprocessed leave balances at 30 June 2009:

- Department of Human Services and Department of Innovation and Industry Development utilised better practice, which did not allow the financial close process to occur at year end without all leave being approved.
- Department of Education and Early Childhood Development manages leave via a manual system, therefore unprocessed leave balances cannot be reliably tracked.

Sick leave

On commencement of employment, department employees are allocated 15 days sick leave, with a further fifteen days allocated on the completion of each year of service thereafter. Accumulated unscheduled leave entitlements lapse on termination and are not paid out.

Figure 2J provides detail on the total sick leave days, paid and unpaid, per department for the 2008–09 financial year and the average days of sick leave held per departmental FTE.

Figure 2J
Unscheduled leave by department–days

Department	Average sick days per FTE 2007–08	Average sick day per FTE 2008–09
Education and Early Childhood Development	15.66	7.58
Human Services	9.62	8.29
Innovation, Industry and Regional Development	7.19	7.04
Justice	8.75	9.54
Planning and Community Development	6.82	7.42
Premier and Cabinet	4.62	6.03
Primary Industries	4.82	5.34
Sustainability and Environment	5.34	5.48
Treasury and Finance	4.18	6.76
Transport	6.92	6.50
Average	**7.39**	**7.00**

Note: (a) Includes paid and unpaid sick leave.
Source: Victorian Auditor-General's Office.

The figure shows the average sick leave of 7 days in 2008–09 (7.39 in 2007–08).

Comparisons with other jurisdictions is limited due to the unavailability of comparative data and differences in the definitions of absence types. Figure 2K provides a comparison of sick leave taken in departments with publicly available data for the Australian Public Service, the Western Australian Government Workforce and the South Australian Public Sector.

Figure 2K
Sick leave taken per FTE

Jurisdiction	Financial period	Sick leave days per FTE
Australian Public Service	2007–08	7.7
Victorian Public Sector departments	2008–09	7.00
	2007–08	7.39
Western Australian State Government Workforce	2006–07	7.2
South Australian Public Sector	2006–07	8.2

Source: Australian Public Service Commission Report 2007–08. Data for Victorian Public Sector Departments is sourced from VAGO.

The average 7 sick leave days taken by departmental employees in 2008–09 compares favourably with other jurisdictions and is well below the 15 day entitlement. While there is not a conclusive explanation for this situation, these results likely reflect the introduction of initiatives across departments to assist in reducing sick leave initiatives such as:

- providing counselling and support services to staff to assist with the management of gambling and substance abuse or depression
- gym memberships
- early intervention strategies to deal with stress management.

The Australian Public Service Commission has developed a better practice guide : *Fostering an Attendance Culture: A guide for APS Agencies and a companion guide for line managers, Turned Up and Tuned In: a manager's guide to maximising staff attendance*. The guide is designed to assist entities identify workplace absences and their possible causes, and improve their capacity to address problems through the implementation of better practice strategies such as:

- implement a reporting framework to assist management to monitor absences, identify patterns and trends and highlight areas for further investigation
- include workplace absence as a regular agenda item at senior management meetings
- raise awareness of health and safety issues, health lifestyles promotion and prevention mechanisms
- provide flexible working arrangements so that employees can manage work-life balance
- establish and communicate attendance expectations
- introduce initiatives to build a positive workplace culture that encourages employees to want to come to work
- provide support and training to line managers to build their confidence and capability in managing workplace absence.

Recommendation

6. Departments should strengthen leave management processes to assure timely processing of leave requests, undertake more rigorous management of recreation leave balances and take preventative action when experiencing higher than average sick leave absences.

Audit committees

Entities generally have audit committees that assist the chief executive officer, governing bodies, and the executive to foster and maintain an appropriate control environment.

The audit committee plays a significant role in assisting the governing body to fulfil its corporate governance, oversight and accountability responsibilities.

Key objectives of the committee are broadly to:

- assess and maintain an adequate internal control environment within the entity
- review annual financial statements and assess their completeness and consistent application of entity accounting policies, assess whether accounting policies utilised are reasonable and comply with relevant financial reporting frameworks and recommend the signing of the financial statements
- approve and monitor internal audit programs, endorse the external financial audit program, assess the effectiveness of these functions and administer internal and external audit findings and recommendations
- review compliance with legislation, relevant regulations and ethics.

The Standing Directions of the Minister for Finance requires each public sector agency to have an audit committee to oversee and advice on matters of accountability and internal control affecting the operations of the agency. The audit committee is required to have:

- at least two independent members
- a charter that clearly sets out the role, responsibilities, composition, structure and membership requirements
- adequate appropriate resources
- direct access to management, external and internal audit and experts.

In this context audit committees would generally be expected to exhibit the practices detailed in Figure 2L.

Figure 2L
Selected better practice—audit committees

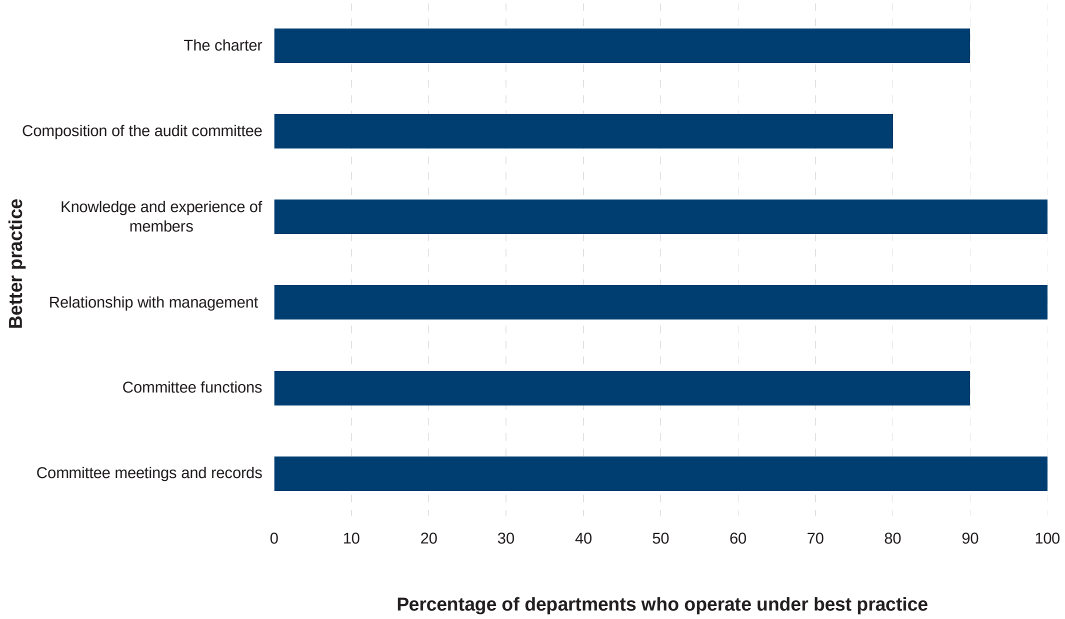
Key area	Better practice
The charter	Have an approved charter and conduct an annual assessment of their performance against this charter.
Composition of the audit committee	At least two independent members including the chair, with no actual or perceived conflicts of interest arising from contractual or business relationships with the entity. Progressive rotation of independent members with maximum terms.
Knowledge and experience of members	One member of the committee with appropriate financial accounting expertise. Members collectively provide a variety of skills from current operations and other business backgrounds that align with the strategic direction of the entity and assist in meeting the objectives of the committee.
Relationship with management	Direct access and a clear reporting line to the Secretary.
Committee functions	Overview and monitoring of matters of accountability and internal control, such as financial performance; financial reporting processes; operation and implementation of risk management frameworks; effectiveness of management information systems; endorsement of accounting treatments for significant transactions; and endorsement of new or amended accounting policies. The committee overviews and monitors external financial reporting.
Committee meetings and records	Regular and well structured meetings are held where deliberations and decisions are documented and communicated to relevant stakeholders.

Source: Victorian Auditor-General's Office.

Findings

This year we assessed the 10 department audit committees against these selected better practices, with the results in Figure 2M

Figure 2M
Better practice results for departmental audit committees



Source: Victorian Auditor-General's Office.

We found an overall satisfactory situation, though there were areas for attention in individual cases as follows:

- composition of the audit committee, greater attention to progressive rotation of members
- committee functions, increased oversight of accounting policies and more rigorous monitoring of financial performance.

3 Financial sustainability – associated entities

At a glance

Background

This part of the report analyses selected financial sustainability ratios for 51 associated departmental entities that primarily generate their own revenue. These ratios provide a set of interrelated indicators to assess entity financial performance and position. The indicators analyse past results to identify trends.

To be sustainable, entities need to have sufficient capacity to be able to manage future financial risks and shocks without having to radically adjust their current revenue and expenditure policies.

Findings

- The financial sustainability analysis showed 27.5 per cent (14 of 51) of entities had a high financial sustainability risk. This was because they obtained a high risk average rating for the underlying result and/or liquidity indicator.
- Premier and Cabinet and the Innovation, Industry and Regional Development portfolios are assessed as having an overall high financial sustainability risk.

Recommendation

- Portfolio entities should adopt a suite of core financial sustainability indicators.

3.1 Introduction

Financial sustainability indicators have been provided in this report for 51 entities that are not budget dependent because they primarily generate their own revenue, rather than predominantly relying on government funding.

The 10 departments are not included in this assessment of financial sustainability as they are effectively fully funded by the government.

The portfolio associated entities for Parliament and Education and Early Childhood Development are not included in this assessment of financial sustainability as related entities predominantly rely on government funding.

The portfolio associated entities for the Treasury and Finance portfolio include the financial services entities and the insurance entities that are not included in this assessment. These have developed and already separately report on sustainability indicators in relation to their objectives.

3.2 Financial performance

Financial performance is measured by the operating result, the difference between revenue inflows and expenditure outflows. The objective for self-funded entities to be sustainable should be to generate a sufficient surplus from operations to be able to fund asset replacement, new asset acquisition and retire debt.

The ability of entities to achieve this objective depends largely on their funding and expenditure policies. This is reflected in the composition and rate of change of their operating revenues and expenses.

3.2.1 Operating revenue

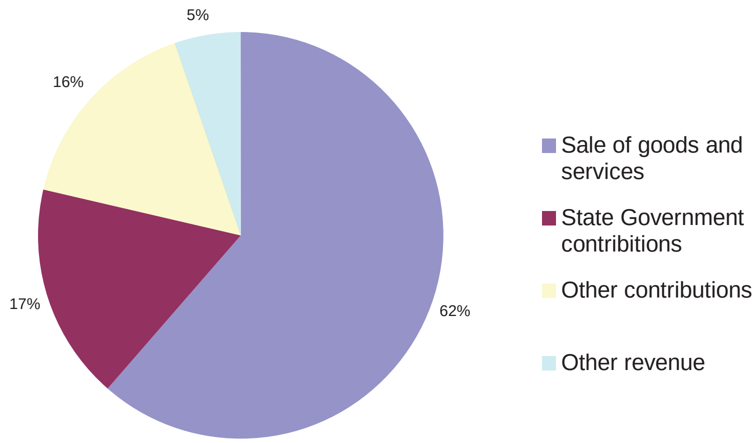
In 2008–09, these 51 entities collectively generated $3 484.6 million in operating revenues.

Operating revenue comprises:

- sale of goods and services revenue
- other contributions
- contributions from the state
- other (for example, interest revenue).

For 2008–09 the composition of operating revenue for these entities is represented in Figure 3A.

Figure 3A
Revenue composition



Source: Victorian Auditor-General's Office.

3.2.2 Operating expenditure

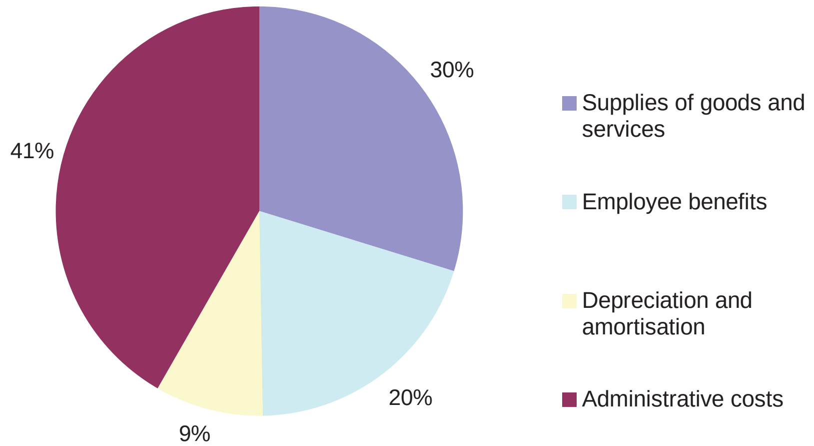
In 2008–09, these entities collectively incurred $4 379.2 million in operating expenditure.

Operating expenditure comprises:

- supplies of goods and services
- other
- employee benefits
- depreciation and amortisation.

For 2008–09 the composition of operating expenditure for these entities is represented in Figure 3B.

Figure 3B
Expenditure Composition



Source: Victorian Auditor-General's Office.

3.3 Indicators of financial sustainability

To be financially sustainable, entities should have the capacity to meet current and future expenditure as it falls due. They should also be able to absorb foreseeable changes and financial risks as they materialise.

Insight to the financial sustainability of these entities is obtained from analysis of four interrelated financial sustainability indicators over a four-year trend period. These indicators reflect each entity's revenue raising performance and expenditure control, and indicate whether current revenue and expenditure trends and policies are sustainable.

The indicators comprise four core indictors, being underlying result, liquidity, self-financing and capital replacement. Figure 3C describes the sustainability indicators used in this report. These indicators have been applied to the published financial information of the entities for the financial periods from 2005–06 to 2008–09.

No one indicator is sufficient to determine long-term sustainability; however, the underlying result is more significant. All other indicators complement the underlying result to the extent that they measure short-term capacity, as with the liquidity ratio, and long-term capacity, as with the capital replacement ratio.

These indicators assist in assessing the financial performance and position of the entities, and indicate whether current revenue and expenditure policies are sustainable. These indicators may show trends that warrant review in relation to the future sustainability of these entities.

In our report *Results of Audits for Entities with 30 June 2008 Balance Dates* (2008-09:14) we recommended that the entities should, in consultation with the portfolio department and DTF, establish targets for key financial indicators. We have consulted with DTF and other portfolio departments and contributed to a working party convened by the DTF to consider the financial sustainability indicators. While there are varying views on what indicators should be used to measure sustainability, the indicators in Figure 3C provide a basis to measure short and long-term sustainability and are consistent with those used in previous reports to Parliament.

Figure 3C
Indicators of financial sustainability

Indicator	Formula	Description
Underlying result (%)	Adjusted net surplus/total underlying revenue	A positive result indicates a surplus, and the larger the percentage the stronger the result. A negative result indicates a deficit. Operating deficits cannot be sustained in the long-term. Net result and total revenue is obtained from the operating statement and is adjusted to take into account large one-off (non-recurring) transactions.
Liquidity	Current assets/ current liabilities	This measures the entity's ability to pay existing liabilities in the next 12 months. A ratio of one or more means that there are more cash and liquid assts than short-term liabilities. Current liabilities have been adjusted to exclude long-term employee provisions and on costs that have been disclosed as current liabilities in their financial statements.
Self-financing (%)	Net operating cash flows/ underlying revenue	Measures the ability to replace assets using cash generated by operations. The higher the percentage the more effectively this can be done. Net operating cash flows are obtained from the cash flow statement.
Capital replacement	Cash outflows for PP&E/ depreciation	Comparison of the rate of spending on infrastructure, property, plant and equipment and intangibles with its depreciation. This is a long-term indicator, as capital expenditure can be deferred in the short-term if there are insufficient funds available from operations, and borrowing is not an option. Cash outflows for property, plant, equipment, infrastructure and intangibles are taken from the cash flow statement. Depreciation and amortisation is taken form the operating statements.

Source: Victorian Auditor-General's Office.

3.4 Financial sustainability risk assessment

The financial sustainability of entities has been assessed using the risk assessment criteria outlined in Figure 3D.

The financial sustainability indicators used in this report highlight trends that need to be monitored arising from the adoption of accrual accounting principles. Notwithstanding, the application of sector neutral Australian Accounting Standards and accrual accounting by entities, it should be noted that the current funding model does not provide for depreciation until capital requirements are determined.

The departmental funding model therefore allocates capital grant funding strategically across the sector and portfolios rather than progressively to each entity. However, where entities are governed by boards that are accountable for financial management and performance, this situation blurs accountability for the financial performance of the individual entities. Successfully resolving this will be a significant step towards realising the benefits of implementing accrual accounting in the respective portfolios.

Figure 3D
Financial sustainability indicators – risk assessment criteria

Risk	Underlying result (%)	Liquidity	Self-financing (%)	Capital replacement
High	**Negative 10% or less** Insufficient revenue is being generated to fund operations and asset renewal.	**Equal to or less than 1.0** Insufficient current assets to cover liabilities.	**Less than 10%** Insufficient cash from operations to fund new assets and asset renewal.	**Equal to or less than 1.0** Spending on capital works has not kept pace with consumption of assets.
Medium	**Negative 10% to zero** A risk of long-term run down to cash reserves and inability to fund asset renewals.	**1.0–1.5** Need for caution with cash flow, as issues could arise with meeting obligations as they fall due.	**10–20%** May not be generating sufficient cash from operations to fund new assets.	**1.0–1.5** May indicate spending on asset renewal is insufficient.
Low	**More than zero** Generating surpluses consistently.	**More than 1.5** No immediate issues with repaying short-term liabilities as they fall due.	**20% or more** Generating enough cash from operations to fund assets.	**More than 1.5** Low risk of insufficient spending on asset renewal.

Source: Victorian Auditor-General's Office.

The overall financial sustainability risk assessment is calculated using the ratings determined for each indicator as outlined in Figure 3E. This assessment is performed at the portfolio and entity level.

Figure 3E
Overall financial sustainability risk assessment

●	High risk of short-term and immediate sustainability concerns indicated by: • **red** underlying result indicator or • **red** liquidity indicator.
●	Medium risk of longer-term sustainability concerns indicated by either: • **red** self-financing indicator • **red** debt to equity indicator • **red** capital replacement indicator.
●	Low risk of financial sustainability concerns—there are no high risk indicators.
▲	An increasing ratio that is an improving trend.
■	No substantial trend.
▼	A decreasing ratio that is a deteriorating trend.

Source: Victorian Auditor-General's Office.

To be financially sustainable, entities must be able to meet their short-term financial obligations, and maintain some excess capacity to finance future capital and infrastructure development. As detailed in figure 3E, shorter-term and immediate sustainability concerns are assessed as high risk, and longer-term sustainability concerns are assessed as medium risk.

Underlying result

To be financially sustainable over the long-term, it is important that entities are able to generate revenue in excess of their expenses. Operating deficits are of concern but may be manageable in the short-term. However, over the longer-term they will not be sustainable. Consequently the underlying result indicates whether an entity can also sustain its operations over the longer-term.

The underlying result may be impacted where funds for asset acquisitions are provided as grants, and usually form part of operating revenue in the year of receipt, but may not match the timing of depreciation as incurred.

Liquidity

Prudent financial management requires that current assets should equal or exceed current liabilities. This would mean that an entity does not have to rely on generating future assets to meet their past short-term liabilities. The liquidity indicator measures the ability to pay existing short-term liabilities within the next 12 months.

Self-financing

The self-financing indictor measures each entity's ability to replace assets using cash generated from their operations, which is an effective indicator for assessing longer-term financial sustainability.

Where the average ratio is less than the minimum 10 per cent benchmark, there can be a greater reliance on the provision of additional government funding for asset renewals and replacement.

Capital replacement

The capital replacement indicator is a long-term indicator that compares the rate of spending on plant and equipment and infrastructure to the annual depreciation and amortisation expense. It is a long-term indicator, because capital spending can often be deferred in the short-term if there are insufficient funds available from operations, and borrowing is not an option.

3.5 Financial sustainability risk assessments

Figure 3F shows the four-year average result for the financial sustainability indictors for each portfolio. The Treasury and Finance portfolio is excluded as it only includes one entity, VicForests.

Figure 3F
Four-year average financial sustainability indicator results 2006–2009

Portfolio	Underlying result (%)	Liquidity	Self-financing (%)	Capital replacement	Overall sustainability
Human Services	22.94%	11.09	29.93%	1.51	●
Innovation, Industry and Regional Development	-51.48%	3.40	6.58%	0.30	●
Justice	3.08%	2.73	14.07%	4.52	●
Planning and Community Development	-6.64%	3.17	10.55%	2.02	●
Premier and Cabinet	-17.78%	1.64	6.16%	0.55	●
Primary Industries	0.74%	2.26	6.50%	3.26	●
Sustainability and Environment	0.55%	6.37	5.46%	1.22	●
Transport	21.76%	9.21	32.89%	1.68	●

Source: Victorian Auditor-General's Office.

3.5.1 Human Services

Figure 3G shows the four-year average results for the financial sustainability indicators for the state's 14 major cemetery trusts, which are primarily own-sourced revenue entities in the portfolio.

Figure 3G
Human Services portfolio—four-year average financial sustainability indicator results 2006–2009

Human Services	Underlying result (%)	Liquidity	Self-financing (%)	Capital replacement	Overall sustainability
Greater metropolitan cemeteries					
Altona Memorial Park	24.12%	5.11	17.71%	1.68	
Anderson's Creek Cemetery Trust	45.65%	22.02	46.18%	5.26	
Fawkner Crematorium and Memorial Park	18.74%	3.03	38.04%	0.86	
Keilor Cemetery Trust	37.05%	19.14	36.49%	1.37	
Lilydale Cemetery Trust	21.72%	3.80	35.96%	1.68	
Preston Cemetery Trust	54.39%	29.90	-15.63%	1.23	
Templestowe Cemetery Trust	13.17%	26.64	33.40%	0.26	
Wyndham Cemeteries Trust	34.07%	37.90	55.62%	0.10	
Regional cemeteries					
Bendigo Cemeteries Trust	5.41%	0.59	14.85%	0.61	
Ballarat General Cemetery Trust	15.61%	0.91	32.03%	1.89	
Geelong Crematorium and Memorial Park	25.08%	0.89	36.37%	2.93	
Mildura Cemetery Trust	-10.03%	1.77	16.44%	0.78	
Southern metropolitan cemeteries					
Cheltenham and Regional Cemeteries Trust	12.44%	2.44	25.79%	1.27	
The Trustees of the Necropolis Springvale	23.71%	1.07	45.73%	1.20	
Portfolio average	**22.94%**	**11.09**	**29.93%**	**1.51**	
Portfolio risk assessment	**Low**	**Low**	**Low**	**Low**	**Low**

Source: Victorian Auditor-General's Office.

Although the results for individual cemetery trusts are variable, the overall financial sustainability for these cemetery trusts has been assessed as low risk. This means that across the portfolio, cemeteries are able to meet their short-term financial obligations, and maintain some excess capacity to finance future capital and infrastructure development.

The Cemeteries and Crematoria Act 2009 (the Cemeteries Act) was passed on 27 October 2009 to restructure the 14 major metropolitan and regional cemetery trusts listed in Figure 3F. The proposed reforms primarily affect the 10 reporting trusts in the metropolitan area and are expected to be completed by March 2010.

Under the Cemeteries Act two new metropolitan cemetery trusts will be created from the existing 10 metropolitan cemetery trusts. The Greater Metropolitan Cemeteries Trust will cover the north, west and eastern metropolitan areas and the Southern Metropolitan Cemeteries Trust will essentially cover the southern and bayside areas of Melbourne. The remaining four regional cemetery trusts listed in Figure 3G will continue to operate and report as separate legal entities.

The merging of the 10 metropolitan cemetery trusts into two larger entities will result in the overall financial performance of the sector being more evenly spread. Notwithstanding this change, the portfolio risk assessment shows strong underlying result, liquidity and self-financing ratios resulting in an overall portfolio risk assessment for these indicators as low. These results reflect the strong cashflows that are generated by these major cemetery trusts.

A low portfolio risk assessment for capital replacement has been derived for this sector. The results for individual cemeteries are markedly different indicating that in some cases entities are currently deferring the replacement of capital assets, this factor will also be alleviated with the merging of cemetery trusts.

Notwithstanding the above assessments, the following two accounting treatment issues will have a substantial impact on the financial performance of the sector going forward. Accordingly, caution needs to be used in interpreting the above financial sustainability results for this sector.

Cemeteries were required by the Department of Human Services to change their accounting policies relating to the treatment of land held for interment purposes in 2008–09. Land held for interment purposes was previously accounted for as a non current asset. However, under the new policy this land is now treated as inventory with its value offset against revenue received for the sale of interment rights.

This change has resulted in only a small drop in the overall profitability of cemeteries for the 2008–09 year as the existing interment land values were valued on a restricted use basis. However, this accounting policy change will have a more significant impact going forward as the higher purchase costs of new cemetery land will need to be recovered against interment sales revenue. This factor will have a negative impact overall and particularly on the underlying operating result.

The second issue relates to the cemetery trusts legislative responsibility to maintain each public cemetery they are responsible for in perpetuity. As a result there will be ongoing significant cash outflows for future expenditure on the perpetual maintenance of cemeteries, even after they have been closed for new internents.

Currently cemeteries are not able to reliably estimate the amount of these future costs and therefore under Australian Accounting Standards they do not recognise an expense or liability amount for this obligation in their financial reports. The future cemetery maintenance costs will have a negative impact on the underlying operating result.

Figures 3H to 3K show the annual financial sustainability indicator results and the overall trend for each entity 2006–2009.

Figure 3H
Human Services portfolio—Underlying result (%) 2006–2009

	Underlying result (%)					
Human Services	**2006**	**2007**	**2008**	**2009**	**Mean**	**Trend**
Greater metropolitan cemeteries						
Altona Memorial Park	13.61%	18.27%	46.15%	18.46%	24.12%	■
Anderson's Creek CT	23.62%	49.82%	52.96%	56.22%	45.65%	▲
Fawkner Crematorium and Memorial Park	38.23%	35.26%	0.05%	1.43%	18.74%	▼
Keilor Cemetery Trust	43.59%	21.22%	38.10%	45.28%	37.05%	▲
Lilydale Cemetery Trust	19.56%	-4.76%	36.88%	35.22%	21.72%	▲
Preston Cemetery Trust	61.51%	50.73%	55.79%	49.51%	54.39%	■
Templestowe Cemetery Trust	1.98%	24.42%	29.36%	-3.10%	13.17%	■
Wyndham Cemeteries Trust	41.41%	16.40%	39.94%	38.50%	34.07%	■
Regional cemeteries						
Bendigo Cemeteries Trust	-1.56%	8.56%	5.00%	9.63%	5.41%	■
Ballarat General CT	5.52%	37.68%	1.97%	17.29%	15.61%	■
Geelong Crematorium and Memorial Park	12.62%	31.32%	25.91%	30.47%	25.08%	■
Mildura Cemetery Trust	-48.72%	13.30%	-8.24%	3.54%	-10.03%	■
Southern metropolitan cemeteries						
Cheltenham and Regional Cemeteries Trust	-2.32%	22.29%	10.49%	19.30%	12.44%	■
The Trustees of the Necropolis Springvale	41.57%	44.30%	47.85%	-38.89%	23.71%	■
Portfolio average	**17.90%**	**26.34%**	**27.30%**	**20.20%**	**22.94%**	▲

Source: Victorian Auditor-General's Office.

Figure 3I
Human Services portfolio—Liquidity 2006–2009

Human Services	Liquidity					
	2006	**2007**	**2008**	**2009**	**Mean**	**Trend**
Greater metropolitan cemeteries						
Altona Memorial Park	5.11	4.81	5.29	5.24	5.11	■
Anderson's Creek CT	15.56	19.66	25.60	27.27	22.02	▲
Fawkner Crematorium and Memorial Park	2.78	3.44	2.81	3.09	3.03	■
Keilor Cemetery Trust	38.33	12.40	11.73	14.09	19.14	■
Lilydale Cemetery Trust	3.49	3.96	3.10	4.63	3.80	■
Preston Cemetery Trust	25.11	50.07	13.67	30.77	29.90	■
Templestowe Cemetery Trust	39.29	16.83	32.00	18.44	26.64	■
Wyndham Cemeteries Trust	41.80	31.39	30.51	47.92	37.90	■
Regional cemeteries						
Bendigo Cemeteries Trust	0.76	0.65	0.43	0.54	0.59	▼
Ballarat General CT	0.91	0.92	0.90	0.90	0.91	▼
Geelong Crematorium and Memorial Park	0.76	0.78	1.08	0.96	0.89	▲
Mildura Cemetery Trust	0.39	0.50	3.43	2.77	1.77	▲
Southern metropolitan cemeteries						
Cheltenham and Regional Cemeteries Trust	1.96	2.57	2.77	2.45	2.44	▲
The Trustees of the Necropolis Springvale	1.25	1.46	0.90	0.67	1.07	▼
Portfolio average	**12.68**	**10.67**	**9.59**	**11.41**	**11.09**	▼

Source: Victorian Auditor-General's Office.

Figure 3J
Human Services portfolio—Self-financing (%) 2006–2009

Human Services	Self-financing (%)					
	2006	2007	2008	2009	Mean	Trend
Greater metropolitan cemeteries						
Altona Memorial Park	27.62%	-14.48%	12.81%	44.89%	17.71%	▲
Anderson's Creek CT	31.97%	49.46%	53.46%	49.85%	46.18%	▲
Fawkner Crematorium and Memorial Park	7.86%	3.73%	75.95%	64.60%	38.04%	▲
Keilor Cemetery Trust	65.14%	32.99%	2.21%	45.63%	36.49%	■
Lilydale Memorial Park	37.87%	48.00%	23.98%	33.97%	35.96%	■
Preston Cemetery Trust	4.29%	-20.52%	1.85%	-48.15%	-15.63%	■
Templestowe Cemetery Trust	30.45%	43.55%	36.09%	23.49%	33.40%	▼
Wyndham Cemeteries Trust	46.88%	64.12%	61.09%	50.39%	55.62%	▼
Regional cemeteries						□
Bendigo Cemeteries Trust	6.72%	20.75%	19.56%	12.37%	14.85%	▼
Ballarat General CT	34.40%	21.57%	30.95%	41.19%	32.03%	▲
Geelong Crematorium and Memorial Park	27.36%	29.84%	39.19%	49.09%	36.37%	▲
Mildura Cemetery Trust	-6.84%	46.79%	21.96%	3.83%	16.44%	▼
Southern metropolitan cemeteries						
Cheltenham and Regional Cemeteries Trust	18.40%	12.97%	33.42%	38.35%	25.79%	▲
The Trustees of the Necropolis Springvale	54.73%	41.25%	49.31%	37.64%	45.73%	■
Portfolio average	27.63%	27.14%	32.99%	31.94%	29.93%	▲

Source: Victorian Auditor-General's Office.

Figure 3K
Human Services portfolio—Capital replacement 2006–2009

Human Services	Capital replacement					
	2006	2007	2008	2009	Mean	Trend
Greater metropolitan cemeteries						
Altona Memorial Park	2.51	1.29	0.71	2.22	1.68	■
Anderson's Creek CT	13.05	5.83	0.23	1.93	5.26	▼
Fawkner Crematorium and Memorial Park	1.39	0.63	0.63	0.79	0.86	■
Keilor Cemetery Trust	0.65	0.47	0.96	3.41	1.37	▲
Lilydale Cemetery Trust	1.78	1.44	1.39	2.13	1.68	■
Preston Cemetery Trust	0.36	1.13	2.54	0.89	1.23	■
Templestowe Cemetery Trust	0.11	0.13	0.69	0.11	0.26	■
Wyndham Cemeteries Trust	0.38	0.00	0.00	0.00	0.10	■
Regional cemeteries						
Bendigo Cemeteries Trust	0.30	0.15	1.61	0.37	0.61	■
Ballarat General CT	1.38	1.17	2.18	2.84	1.89	▲
Geelong Crematorium and Memorial Park	4.06	1.64	2.18	3.87	2.93	▲
Mildura Cemetery Trust	0.22	1.44	0.00	1.47	0.78	■
Southern metropolitan cemeteries						
Cheltenham and Regional Cemeteries Trust	2.10	0.86	1.49	0.65	1.27	■
The Trustees of the Necropolis Springvale	1.87	0.71	0.97	1.26	1.20	▲
Portfolio average	**2.15**	**1.21**	**1.11**	**1.57**	**1.51**	■

Source: Victorian Auditor-General's Office.

3.5.2 Innovation, Industry and Regional Development

Figure 3L shows the four-year average results for the financial sustainability indicators for the six primarily own-sourced revenue entities in the innovation, industry and regional development portfolio.

Figure 3L
Innovation, Industry and Regional Development portfolio—four-year average financial sustainability risk assessment 2006–2009

Innovation, Industry and Regional Development	Underlying result (%)	Liquidity	Self-financing (%)	Capital replacement	Overall sustainability
Australian Grand Prix Corporation	-1.19%	1.63	1.84%	0.46	●
Emerald Tourist Railway Board	-5.48%	1.09	11.87%	0.64	●
Federation Square Pty Ltd	-30.01%	4.39	30.78%	0.18	●
Melbourne City Central Studios Pty Ltd (a)	-267.25%	2.79	-59.67%	0.00	●
Melbourne Convention Centre and Exhibition Trust	-13.41%	3.71	9.67%	0.29	●
Melbourne Market Authority	8.45%	6.77	44.96%	0.19	●
Portfolio average	-51.48%	3.40	6.58%	0.30	●
Portfolio risk assessment	**High**	**Low**	**High**	**High**	**High**

(a) Indicators derived from 2008–09 financial statements only.

Source: Victorian Auditor-General's Office.

The overall financial sustainability for the portfolio has been assessed as high risk.

The poor underlying results for Federation Square Pty Ltd (Fed Square) and the Melbourne Convention and Exhibition Centre (MECC) are primarily attributed to the depreciation of the significant State buildings and infrastructure operated by these entities. Operating losses are not sustainable and may impact the ability of Fed Square and MECC to maintain their assets in the long-term without funding from government.

The Melbourne Central City Studios Pty Ltd are assessed as having a high financial sustainability risk due to their current year losses, while 30 June 2010 operating cash flow forecasts are also uncertain. The future plans and forecasts for the studios are sensitive to the global economy and are therefore uncertain. Forecasted revenue for the studios is dependent on US film production. We were advised that as the Australian dollar strengthens against the US dollar, American film companies are withdrawing from film production in Australia.

Figures 3M to 3P show the annual financial sustainability indicators results and the overall trend for each entity 2006–2009.

Figure 3M
Innovation, Industry and Regional Development portfolio—
Underlying result (%) 2006–2009

Innovation, Industry and Regional Development	Underlying result %					
	2006	2007	2008	2009	Mean	Trend
Australian Grand Prix Corporation	-2.17%	-2.76%	-6.35%	6.52%	-1.19%	■
Emerald Tourist Railway Board	-1.74%	-7.32%	-7.61%	-5.26%	-5.48%	▼
Fed Square Pty Ltd	-18.77%	-32.36%	-36.74%	-32.18%	-30.01%	▼
Melbourne City Central Studios				-267.25%	-267.25%	N/A
Melbourne Convention and Exhibition Trust	-21.12%	-9.36%	-6.35%	-16.83%	-13.41%	■
Melbourne Market Authority	-2.52%	-11.71%	20.65%	27.37%	8.45%	▲
Portfolio average	**-9.26%**	**-12.70%**	**-7.28%**	**-47.94%**	**-51.48%**	■

Source: Victorian Auditor-General's Office.

Figure 3N
Innovation, Industry and Regional Development portfolio—
Liquidity 2006–2009

Innovation, Industry and Regional Development	Liquidity					
	2006	2007	2008	2009	Mean	Trend
Australian Grand Prix Corporation	1.92	1.62	1.15	1.82	1.63	■
Emerald Tourist Railway Board	1.06	1.02	1.09	1.19	1.09	▲
Fed Square Pty Ltd	4.65	4.34	4.56	4.02	4.39	■
Melbourne City Central Studios				2.79	2.79	N/A
Melbourne Convention and Exhibition Trust	3.38	3.74	4.10	3.64	3.71	▲
Melbourne Market Authority	3.12	5.13	7.35	11.49	6.77	▲
Portfolio average	2.83	3.17	3.65	4.16	3.40	▲

Source: Victorian Auditor-General's Office.

Figure 3O
Innovation, Industry and Regional Development portfolio—Self-financing (%) 2006–2009

Innovation, Industry and Regional Development	Self-financing (%)					
	2006	2007	2008	2009	Mean	Trend
Australian Grand Prix Corporation	0.85%	-0.06%	-0.23%	6.78%	1.84%	
Emerald Tourist Railway Board	15.38%	11.23%	12.44%	8.45%	11.87%	
Fed Square Pty Ltd	13.93%	76.53%	16.23%	16.41%	30.78%	
Melbourne City Central Studios				-59.67%	-59.67%	N/A
Melbourne Convention and Exhibition Trust	7.79%	8.31%	15.36%	7.23%	9.67%	
Melbourne Market Authority	36.18%	37.68%	49.52%	56.47%	44.96%	
Portfolio average	**14.83%**	**26.74%**	**18.66%**	**5.95%**	**6.58%**	

Source: Victorian Auditor-General's Office.

Figure 3P
Innovation, Industry and Regional Development portfolio—Capital replacement 2006–2009

Innovation, Industry and Regional Development	Capital replacement					
	2006	2007	2008	2009	Mean	Trend
Australian Grand Prix Corporation	0.45	0.65	0.44	0.30	0.46	
Emerald Tourist Railway Board	0.93	0.61	0.49	0.52	0.64	
Fed Square Pty Ltd	0.31	0.10	0.26	0.06	0.18	
Melbourne City Central Studios				0.00	0.00	N/A
Melbourne Convention and Exhibition Trust	0.19	0.21	0.09	0.69	0.29	
Melbourne Market Authority	0.16	0.14	0.39	0.09	0.19	
Portfolio average	**0.41**	**0.34**	**0.33**	**0.28**	**0.30**	

Source: Victorian Auditor-General's Office.

3.5.3 Justice

Figure 3Q shows the four-year average results for the financial sustainability indicators for the five primarily own-sourced revenue entities in the justice portfolio.

Figure 3Q
Justice portfolio—four-year average financial sustainability risk assessment 2006–2009

Justice	Underlying result (%)	Liquidity	Self-financing (%)	Capital replacement	Overall sustainability
Country Fire Authority	7.04%	1.95	16.60%	2.11	
Emergency Services Telecommunications Authority	-2.62%	1.43	23.77%	0.36	
Greyhound Racing Victoria	4.30%	6.44	6.14%	2.37	
Harness Racing Victoria	-0.42%	1.53	5.53%	15.45	
Metropolitan Fire and Emergency Services Board	7.11%	2.29	18.31%	2.33	
Portfolio average	**3.08%**	**2.73**	**14.07%**	**4.52**	
Portfolio risk assessment	**Low**	**Low**	**Medium**	**Low**	**Low**

Source: Victorian Auditor-General's Office.

The overall financial sustainability for the portfolio has been assessed as low risk. This means that the portfolio entities are able to meet their short-term financial obligations and maintain some excess capability to finance future infrastructure and capital developments.

Emergency Services Telecommunications Authority's (ESTA) underlying result and reducing liquidity is a direct result of higher operational costs arising from increased demand in a fixed funding environment. Additional one-off funding was received from government in 2009–10, which partly covered the additional costs. ESTA has advised that it will need to renegotiate its funding model for future periods to sustain this level of operations.

The medium portfolio average for self-financing indicates a risk that these entities may not produce sufficient funds from their operations to spend on the renewal of assets and new capital.

Figures 3R to 3U show the annual financial sustainability indicator results and the overall trend for each entity 2006–2009.

Figure 3R
Justice portfolio—Underlying result (%) 2006–2009

	Underlying result %					
Justice	**2006**	**2007**	**2008**	**2009**	**Mean**	**Trend**
Country Fire Authority	2.59%	9.40%	5.86%	10.30%	7.04%	▲
Emergency Services Telecommunications Authority	-0.60%	-3.21%	-2.77%	-3.91%	-2.62%	■
Greyhound Racing Victoria	10.70%	3.92%	4.40%	-1.81%	4.30%	■
Harness Racing Victoria	0.70%	0.68%	-0.38%	-2.65%	-0.42%	▼
Metropolitan Fire and Emergency Services Board	9.43%	10.43%	6.79%	1.78%	7.11%	▼
Portfolio average	**4.56%**	**4.24%**	**2.78%**	**0.74%**	**3.08%**	▼

Source: Victorian Auditor-General's Office.

Figure 3S
Justice portfolio—Liquidity 2006–2009

	Liquidity					
Justice	**2006**	**2007**	**2008**	**2009**	**Mean**	**Trend**
Country Fire Authority	1.46	2.07	2.16	2.13	1.95	▲
Emergency Services Telecommunications Authority	1.99	1.84	1.09	0.81	1.43	▼
Greyhound Racing Victoria	6.78	8.97	6.94	3.10	6.44	▼
Harness Racing Victoria	2.93	1.74	0.84	0.61	1.53	▼
Metropolitan Fire and Emergency Services Board	2.72	2.11	2.06	2.28	2.29	■
Portfolio average	**3.17**	**3.35**	**2.62**	**1.79**	**2.73**	▼

Source: Victorian Auditor-General's Office.

Figure 3T
Justice portfolio—Self-financing (%) 2006–2009

	Self-financing ratio					
Justice	**2006**	**2007**	**2008**	**2009**	**Mean**	**Trend**
Country Fire Authority	11.98%	18.74%	14.29%	21.38%	16.60%	■
Emergency Services Telecommunications Authority	23.81%	13.71%	34.01%	23.55%	23.77%	■
Greyhound Racing Victoria	4.06%	-1.03%	3.33%	18.19%	6.14%	▲
Harness Racing Victoria	9.80%	-3.14%	23.05%	-7.59%	5.53%	■
Metropolitan Fire and Emergency Services Board	24.53%	18.08%	17.69%	12.93%	18.31%	▼
Portfolio average	**14.84%**	**9.27%**	**18.47%**	**13.69%**	**14.07%**	■

Source: Victorian Auditor-General's Office.

Figure 3U
Justice portfolio—Capital replacement 2006–2009

	Capital replacement					
Justice	**2006**	**2007**	**2008**	**2009**	**Mean**	**Trend**
Country Fire Authority	1.58	2.07	2.27	2.52	2.11	▲
Emergency Services Telecommunications Authority	0.78	0.41	0.04	0.21	0.36	▼
Greyhound Racing Victoria	0.30	0.60	4.02	4.56	2.37	▲
Harness Racing Victoria	9.49	7.49	28.61	16.21	15.45	■
Metropolitan Fire and Emergency Services Board	2.88	2.79	2.44	1.20	2.33	▼
Portfolio average	**3.01**	**2.67**	**7.48**	**4.94**	**4.52**	■

Source: Victorian Auditor-General's Office.

3.5.4 Planning and Community Development

Figure 3V shows the four-year average results for the financial sustainability indicators for the seven primarily own-sourced revenue entities in the planning and community development portfolio.

Figure 3V
Planning and Community Development portfolio—four-year average financial sustainability risk assessment 2006–2009

Planning and Community Development	Underlying result (%)	Liquidity	Self-financing (%)	Capital replacement	Overall sustainability
Building Commission	1.37%	1.51	6.85%	1.50	●
Melbourne and Olympic Parks Trust	14.13%	2.73	40.36%	4.51	●
Plumbing Industry Commission	1.88%	1.21	7.76%	1.76	●
Queen Victoria Women's Centre Trust	-34.28%	5.02	9.62%	1.01	●
State Sports Centre Trust	-41.94%	3.30	4.82%	0.97	●
Victorian Urban Development Authority	5.33%	4.56	-0.01%	2.49	●
VITS Languagelink	7.00%	3.84	4.48%	1.89	●
Portfolio average	**-6.64%**	**3.17**	10.55%	2.02	●
Portfolio risk assessment	**Medium**	**Low**	**Medium**	**Low**	**Low**

Source: Victorian Auditor-General's Office.

Overall financial sustainability for the portfolio was rated as low risk. However, included in this result are two entities with overall sustainability risk assessed as high. The State Sport Centres Trust and Queen Victoria Women's Centre Trust, both have a negative trend over the last four years on underlying result. An underlying deficit is not sustainable in the long-term and indicates that both entities will need to look at strategies to control expenditure or increase revenue to achieve long-term sustainability.

Figures 3W to 3Z show the annual financial sustainability indicator results and the overall trend for each entity 2006–2009.

Figure 3W
Planning and Community Development portfolio— Underlying result (%) 2006–2009

Planning and Community Development	Underlying result %					
	2006	2007	2008	2009	Mean	Trend
Building Commission	4.47%	0.96%	1.92%	-1.88%	1.37%	■
Melbourne and Olympic Parks Trust	14.64%	23.51%	10.55%	7.80%	14.13%	▼
Plumbing Industry Commission	7.51%	-5.01%	1.22%	3.80%	1.88%	■
Queens Victoria Women's Centre Trust	-63.43%	-56.67%	5.47%	-22.41%	-34.26%	■
State Sport Centres Trust	-20.00%	-38.09%	-53.56%	-56.12%	-41.94%	▼
Victorian Urban Development Authority	9.63%	7.94%	9.21%	-5.46%	5.33%	■
VITS Languagelink	9.12%	7.38%	7.39%	4.14%	7.00%	■
Portfolio average	**-5.44%**	**-8.57%**	**-2.54%**	**-10.02%**	**-6.64%**	■

Source: Victorian Auditor-General's Office.

Figure 3X
Planning and Community Development portfolio—Liquidity 2006–2009

Planning and Community Development	Liquidity					
	2006	2007	2008	2009	Mean	Trend
Building Commission	1.74	1.47	1.56	1.29	1.51	■
Melbourne and Olympic Parks Trust	0.91	1.34	7.03	1.65	2.73	■
Plumbing Industry Commission	1.40	1.12	1.16	1.18	1.21	■
Queens Victoria Women's Centre Trust	4.40	7.20	4.94	3.55	5.02	▼
State Sport Centres Trust	4.14	4.77	1.41	2.89	3.30	■
Victorian Urban Development Authority	4.89	4.88	4.31	4.16	4.56	▼
VITS Languagelink	2.96	5.50	3.79	3.09	3.84	▼
Portfolio average	**2.92**	**3.75**	**3.46**	**2.54**	**3.17**	▼

Source: Victorian Auditor-General's Office.

Figure 3Y
Planning and Community Development portfolio—
Self-financing (%) 2006–2009

Planning and community development	Self-financing ratio					
	2006	2007	2008	2009	Mean	Trend
Building Commission	12.32%	8.06%	1.85%	5.16%	6.85%	▼
Melbourne and Olympic Parks Trust	47.11%	17.90%	22.81%	73.61%	40.36%	▲
Plumbing Industry Commission	12.01%	8.63%	3.66%	6.75%	7.76%	▼
Queens Victoria Women's Centre Trust	-1.43%	-25.73%	56.55%	9.10%	9.62%	■
State Sport Centres Trust	14.64%	9.69%	-3.72%	-1.33%	4.82%	▼
Victorian Urban Development Authority	5.37%	22.09%	31.16%	-58.66%	-0.01%	■
VITS Languagelink	6.44%	-0.62%	5.61%	6.48%	4.48%	▲
Portfolio average	**13.78%**	**5.72%**	**16.85%**	**5.87%**	**10.55%**	■

Source: Victorian Auditor-General's Office.

Figure 3Z
Planning and Community Development portfolio—
Capital replacement 2006–2009

Planning and Community Development	Capital replacement					
	2006	2007	2008	2009	Mean	Trend
Building Commission	0.46	1.82	1.15	2.57	1.50	■
Melbourne and Olympic Parks Trust	2.42	1.04	6.66	7.91	4.51	▲
Plumbing Industry Commission	0.82	2.22	1.40	2.59	1.76	■
Queens Victoria Women's Centre Trust	0.23	0.37	3.42	0.02	1.01	■
State Sport Centres Trust	2.31	0.70	0.72	0.14	0.97	▼
Victorian Urban Development Authority	6.58	1.83	0.38	1.17	2.49	▼
VITS Languagelink	0.61	0.52	3.31	3.10	1.89	▲
Portfolio average	**1.92**	**1.21**	**2.43**	**2.50**	**2.02**	▲

Source: Victorian Auditor-General's Office.

3.5.5 Premier and Cabinet

Figure 3AA shows the four-year average results for the financial sustainability indicators for the two primarily own-sourced revenue entities in the Premier and Cabinet portfolio.

Figure 3AA
Premier and Cabinet portfolio—four-year average financial sustainability risk assessment 2006–2009

Premier and Cabinet	Underlying result (%)	Liquidity	Self-financing (%)	Capital replacement	Overall sustainability
Geelong Performing Arts Centre	-8.93%	1.39	5.09%	0.79	●
Victorian Arts Centre Trust	-26.64%	1.89	7.24%	0.31	●
Portfolio average	-17.78%	1.64	**6.16%**	**0.55**	●
Portfolio risk assessment	**High**	**Low**	**High**	**High**	**High**

Source: Victorian Auditor-General's Office.

The overall financial sustainability for the portfolio has been assessed as high risk.

The Geelong Performing Arts Centre (GPAC) and the Victorian Arts Centre Trust (VACT) operate entertainment venues that present art and cultural experiences for the public. The high risk rating for self-financing shows that both GPAC and VACT are reliant on government funding to operate and are not generating sufficient returns from hiring their facilities to contribute to the maintenance and renewal of infrastructure assets.

Figures 3AB to 3AE show the annual financial sustainability indicator results and the overall trend for each entity 2006–2009.

Figure 3AB
Premier and Cabinet portfolio—Underlying result (%) 2006–2009

	Underlying result %					
Premier and Cabinet	**2006**	**2007**	**2008**	**2009**	**Mean**	**Trend**
Geelong Performing Arts Centre	-6.55%	-4.05%	-13.26%	-11.84%	-8.93%	▼
Victorian Arts Centre Trust	-46.30%	-36.21%	-2.45%	-21.59%	-26.64%	■
Portfolio average	**-26.43%**	**-20.13%**	**-7.85%**	**-16.71%**	**-17.78%**	■

Source: Victorian Auditor-General's Office.

Figure 3AC
Premier and Cabinet portfolio—Liquidity 2006–2009

Premier and Cabinet	Liquidity					
	2006	2007	2008	2009	Mean	Trend
Geelong Performing Arts Centre	1.52	1.42	1.32	1.30	1.39	▼
Victorian Arts Centre Trust	1.74	1.88	2.15	1.78	1.89	▲
Portfolio average	**1.63**	**1.65**	**1.73**	**1.54**	**1.64**	■

Source: Victorian Auditor-General's Office.

Figure 3AD
Premier and Cabinet portfolio—Self-financing (%) 2006–2009

Premier and Cabinet	Self-financing ratio					
	2006	2007	2008	2009	Mean	Trend
Geelong Performing Arts Centre	1.78%	14.45%	-1.34%	5.46%	5.09%	■
Victorian Arts Centre Trust	-0.27%	4.92%	17.07%	7.23%	7.24%	■
Portfolio average	0.75%	9.68%	7.87%	6.34%	6.16%	■

Source: Victorian Auditor-General's Office.

Figure 3AE
Premier and Cabinet portfolio—Capital replacement 2006–2009

Premier and Cabinet	Capital replacement					
	2006	2007	2008	2009	Mean	Trend
Geelong Performing Arts Centre	1.24	0.66	0.40	0.87	0.79	▼
Victorian Arts Centre Trust	0.29	0.12	0.43	0.38	0.31	■
Portfolio average	**0.77**	**0.39**	**0.41**	**0.63**	**0.55**	▲

Source: Victorian Auditor-General's Office.

3.5.6 Primary Industries

Figure 3AF shows the four-year average results for the financial sustainability indicators for the five primarily own-sourced revenue entities in the primary industries portfolio.

Figure 3AF
Primary Industries portfolio—four-year average financial sustainability risk assessment 2006–2009

Primary Industries	Underlying result (%)	Liquidity	Self-financing (%)	Capital replacement	Overall sustainability
Agriculture Victoria Services Pty Ltd	-0.08%	2.34	10.98%	10.04	
Dairy Food Safety Victoria	7.82%	3.57	12.65%	1.39	
Energy Safe Victoria	2.26%	1.65	6.01%	1.28	
Primesafe	-4.98%	1.68	3.01%	2.16	
Victorian Energy Networks Corporation	-1.34%	2.03	-0.15%	1.42	
Portfolio average	**0.74%**	**2.26**	**6.50%**	3.26	
Portfolio risk assessment	**Low**	**Low**	**High**	**Low**	**Medium**

Source: Victorian Auditor-General's Office.

The overall financial sustainability for the portfolio has been assessed as medium risk.

The high portfolio risk assessment for the self-financing ratio indicates that there is insufficient cash from operations to fund new assets and asset renewal.

The portfolio risk assessment shows a strong underlying result, liquidity and capital replacement ratios as the portfolio risk assessment for these indicators is low risk. The capital replacement ratio for this portfolio has been inflated by the high result of Agriculture Victoria Services Pty Ltd.

Figures 3AG to 3AJ show the annual financial sustainability indicator results and the overall trend for each entity 2006–2009.

Figure 3AG
Primary Industries portfolio—Underlying result (%) 2006–2009

	Underlying result %					
Primary Industries	**2006**	**2007**	**2008**	**2009**	**Mean**	**Trend**
Agriculture Victoria Services Pty Ltd	3.34%	3.15%	-9.39%	2.58%	-0.08%	■
Dairy Food Safety Victoria	5.24%	8.24%	9.44%	8.36%	7.82%	▲
Energy Safe Victoria	-0.84%	1.40%	1.97%	6.49%	2.26%	▲
PrimeSafe	-27.74%	9.01%	-5.11%	3.92%	-4.98%	▼
Victorian Energy Networks Corporation	-2.86%	9.32%	6.48%	-18.29%	-1.34%	▼
Portfolio average	**-22.74%**	**16.79%**	**8.53%**	**0.61%**	**0.80%**	▼

Source: Victorian Auditor-General's Office.

Figure 3AH
Primary Industries portfolio—Liquidity 2006–2009

	Liquidity					
Primary Industries	**2006**	**2007**	**2008**	**2009**	**Mean**	**Trend**
Agriculture Victoria Services Pty Ltd	2.30	2.49	2.51	2.07	2.34	■
Dairy Food Safety Victoria	2.85	3.41	3.39	4.63	3.57	▲
Energy Safe Victoria	1.36	1.49	1.93	1.82	1.65	▲
PrimeSafe	1.70	1.75	1.64	1.63	1.68	■
Victorian Energy Networks Corporation	1.60	2.14	3.08	1.32	2.03	■
Portfolio average	**1.96**	**2.26**	**2.51**	**2.29**	**2.26**	■

Source: Victorian Auditor-General's Office.

Figure 3AI
Primary Industries portfolio—Self-financing (%) 2006–2009

	Self-financing ratio					
Primary Industries	**2006**	**2007**	**2008**	**2009**	**Mean**	**Trend**
Agriculture Victoria Services Pty Ltd	8.34%	-2.69%	30.14%	8.13%	10.98%	■
Dairy Food Safety Victoria	13.58%	13.98%	17.23%	5.82%	12.65%	■
Energy Safe Victoria	5.85%	-1.83%	6.68%	13.35%	6.01%	▲
PrimeSafe	-23.48%	16.03%	4.75%	14.73%	3.01%	■
Victorian Energy Networks Corporation	-3.07%	11.98%	4.95%	-14.44%	-0.15%	▼
Portfolio average	-19.29%	21.08%	18.75%	5.52%	6.51%	▼

Source: Victorian Auditor-General's Office.

Figure 3AJ
Primary Industries portfolio—Capital replacement 2006–2009

	Capital replacement					
Primary Industries	**2006**	**2007**	**2008**	**2009**	**Mean**	**Trend**
Agriculture Victoria Services Pty Ltd	10.04	13.87	14.51	1.72	10.04	■
Dairy Food Safety Victoria	1.42	1.29	1.61	1.23	1.39	■
Energy Safe Victoria	1.17	1.11	1.11	1.72	1.28	■
PrimeSafe	1.82	2.01	2.64	2.17	2.16	▲
Victorian Energy Networks Corporation	0.93	0.84	0.44	3.47	1.42	■
Portfolio average	**3.07**	**3.83**	**4.06**	**2.06**	**3.26**	■

Source: Victorian Auditor-General's Office.

3.5.7 Sustainability and Environment

Figure 3AK shows the four year average results for the financial sustainability indicators for the six own-sourced revenue entities in the sustainability and environment portfolio.

Figure 3AK
Sustainability and Environment portfolio—four-year average financial sustainability risk assessment 2006–2009

Sustainability and Environment	Underlying result (%)	Liquidity	Self-financing (%)	Capital replacement	Overall sustainability
Environmental Protection Authority	15.14%	5.36	16.61%	0.70	●
Parks Victoria	2.73%	0.77	8.54%	1.22	●
Surveyor's Registration Board of Victoria	-0.16%	21.36	0.24%	0.00	●
Sustainability Victoria	0.79%	5.79	-2.63%	0.86	●
Yarra Bend Park Trust	-8.43%	5.97	0.56%	0.01	●
Zoological Parks and Gardens Board	-8.37%	3.29	12.41%	2.46	●
Portfolio average	**0.28%**	**7.09**	**5.96%**	**0.88**	●
Portfolio risk assessment	**Low**	**Low**	**High**	**High**	**Medium**

Source: Victorian Auditor-General's Office.

The overall sustainability for the portfolio has been assessed as medium risk, with the results for individual entities variable.

The portfolio risk assessment shows a strong result with the underlying result and liquidity ratios given the portfolio risk assessment for these indicators of low risk.

The high portfolio risk assessment for the capital replacement and self-financing ratios indicate that there is insufficient cash from operations to fund new assets and asset renewal.

Figures 3AL to 3AP show the annual financial sustainability indicator results and the overall trend for each entity 2006–2009.

Figure 3AL
Sustainability and Environment portfolio—Underlying result (%) 2006–2009

Sustainability and Environment	Underlying result %					
	2006	2007	2008	2009	Mean	Trend
Environment Protection Authority	4.87%	14.93%	24.99%	15.76%	15.14%	▲
Parks Victoria	16.82%	-2.93%	-2.10%	-0.87%	2.73%	■
Surveyor's Registration Board of Victoria	-11.16%	6.98%	9.95%	-6.41%	-0.16%	■
Sustainability Victoria	-9.30%	3.14%	9.57%	-0.25%	0.79%	■
Yarra Bend Park Trust	-9.81%	2.09%	-9.69%	-16.30%	-8.43%	■
Zoological Parks and Gardens Board	-8.54%	-6.80%	-7.48%	-10.65%	-8.37%	■
Portfolio average	-2.85%	2.9%	4.21%	-3.12%	0.28%	■

Source: Victorian Auditor-General's Office.

Figure 3AM
Sustainability and Environment portfolio—Liquidity 2006–2009

Sustainability and Environment	Liquidity					
	2006	2007	2008	2009	Mean	Trend
Environment Protection Authority	6.38	4.11	5.12	5.82	5.36	▲
Parks Victoria	0.49	0.60	0.88	1.11	0.77	▲
Surveyor's Registration Board of Victoria	11.06	27.00	30.92	16.46	21.36	■
Sustainability Victoria	5.65	6.33	7.13	4.05	5.79	■
Yarra Bend Park Trust	7.77	8.37	2.69	5.06	5.97	■
Zoological Parks and Gardens Board	2.33	2.93	4.41	3.48	3.29	▲
Portfolio average	**5.61**	**8.22**	**8.52**	**6.00**	**7.09**	▲

Source: Victorian Auditor-General's Office.

Figure 3AN
Sustainability and Environment portfolio—Self-financing (%) 2006–2009

Sustainability and Environment	Self-financing ratio					
	2006	2007	2008	2009	Mean	Trend
Environment Protection Authority	-0.14%	4.01%	30.51%	32.04%	16.61%	▲
Parks Victoria	6.49%	-1.06%	19.01%	9.72%	8.54%	■
Surveyor's Registration Board of Victoria	-8.84%	4.13%	10.07%	-4.41%	0.24%	■
Sustainability Victoria	2.91%	-2.97%	7.03%	-17.47%	-2.63%	■
Yarra Bend Park Trust	2.92%	2.04%	14.22%	-16.91%	0.56%	■
Zoological Parks and Gardens Board	9.25%	9.77%	11.97%	18.66%	12.41%	▲
Portfolio average	**2.10%**	**2.65%**	**15.47%**	**3.60%**	**5.96%**	■

Source: Victorian Auditor-General's Office.

Figure 3AO
Sustainability and Environment portfolio—Capital replacement 2006–2009

Sustainability and Environment	Capital replacement					
	2006	2007	2008	2009	Mean	Trend
Environment Protection Authority	1.12	0.76	0.39	0.54	0.70	■
Parks Victoria	1.65	0.45	1.45	1.33	1.22	■
Surveyor's Registration Board of Victoria	0.00	0.00	0.00	0.00	0.00	■
Sustainability Victoria	0.64	1.06	0.91	0.85	0.86	▼
Yarra Bend Park Trust	0.00	0.03	0.00	0.00	0.01	■
Zoological Parks and Gardens Board	5.61	0.81	0.51	2.90	2.46	■
Portfolio average	**1.50**	**0.52**	**0.54**	**0.94**	**0.88**	■

Source: Victorian Auditor-General's Office.

3.5.8 Transport

Figure 3AP shows the four-year average results for the financial sustainability indicators for the five primarily own-sourced revenue entities in the transport portfolio.

Figure 3AP
Transport portfolio—four-year average financial sustainability risk assessment 2006–2009

Transport	Underlying result (%)	Liquidity	Self-financing (%)	Capital replacement	Overall sustainability
Port of Melbourne Corporation	23.42%	0.65	42.23%	5.00	●
Port of Hastings Corporation	74.00%	18.43	9.55%	0.02	●
V/Line Passenger Corporation	-3.52%	0.26	5.97%	0.98	●
Victorian Rail Track	-2.57%	0.64	59.60%	1.11	●
Victorian Regional Channels Authority	17.48%	26.07	47.11%	1.28	●
Portfolio average	**21.76%**	**9.21**	**47.96%**	**1.68**	●
Portfolio risk assessment	**Low**	**Low**	**Low**	**Low**	**Low**

Source: Victorian Auditor-General's Office.

The overall sustainability for the portfolio has been assessed as low risk, with the results for individual entities variable.

Victrack consistently reports operating losses. This is attributed to the depreciation of significant infrastructure assets and the interest costs associated with the finance leases in relation to its rail stock. Victrack's high liquidity risk reflects both borrowings to be repaid within the next 12 months and repayments made under the state's rolling stock finance lease agreement.

V/Line Passenger Corporation's high liquidity risk is due to employee leave benefits of $48.9 million reported as current liabilities in 2008–09. While these provisions are reported as current liabilities in accordance with accounting standards, not all leave is expected to be paid out by V/Line in 2009–10.

The Port of Melbourne Corporation's high liquidity risk is due to liquidity levels of 0.32 and 0.18 reported in 2006 and 2007, respectively. In the past two financial years the Port of Melbourne's liquidity has increased to greater than one, indicating no current issues.

Figures 3AQ to 3AS show the annual financial sustainability indicator results and the overall trend for each entity 2006–2009.

Figure 3AQ
Transport portfolio—Underlying result (%) 2006–2009

	Underlying result %					
Transport	**2006**	**2007**	**2008**	**2009**	**Mean**	**Trend**
Port of Melbourne Corporation	34.88%	13.85%	24.54%	20.41%	23.42%	▲
Port of Hastings Corporation	-97.59%	-94.64%	440.64%	47.58%	74.00%	■
V/Line Passenger Pty Ltd	-1.65%	-7.33%	-3.71%	-1.38%	-3.52%	■
Victoria Rail Track	-1.92%	7.97%	-8.95%	-7.37%	-2.57%	■
Victorian Regional Channel Authority	18.64%	20.25%	17.94%	13.08%	17.48%	▼
Portfolio average	**-9.53%**	**-11.98%**	**94.09%**	**14.47%**	**21.76%**	▲

Source: Victorian Auditor-General's Office.

Figure 3AR
Transport portfolio—Liquidity 2006–2009

	Liquidity					
Transport	**2006**	**2007**	**2008**	**2009**	**Mean**	**Trend**
Port of Melbourne Corporation	0.32	0.18	1.10	1.01	0.65	■
Port of Hastings Corporation	15.12	6.99	20.53	31.08	18.43	▲
V/Line Passenger Pty Ltd	0.24	0.22	0.29	0.31	0.26	■
Victoria Rail Track	0.84	0.64	0.54	0.53	0.64	▼
Victorian Regional Channel Authority	12.70	8.81	42.14	40.64	26.07	■
Portfolio average	**5.84**	**3.37**	**12.92**	**14.71**	**9.21**	▲

Source: Victorian Auditor-General's Office.

Figure 3AS
Transport portfolio—Self-financing (%) 2006–2009

	Self-financing ratio					
Transport	**2006**	**2007**	**2008**	**2009**	**Mean**	**Trend**
Port of Melbourne Corporation	44.38%	43.81%	42.35%	38.38%	42.23%	▼
Port of Hastings Corporation	-6.04%	5.71%	44.32%	-5.80%	9.55%	■
V/Line Passenger Pty Ltd	9.09%	5.19%	5.07%	4.51%	5.97%	▼
Victoria Rail Track	15.56%	42.49%	55.36%	125.00%	59.60%	▲
Victorian Regional Channel Authority	53.43%	49.87%	40.79%	44.34%	47.11%	■
Portfolio average	23.28%	29.41%	37.58%	41.29%	32.89%	▲

Source: Victorian Auditor-General's Office.

Figure 3AT
Transport portfolio—Capital replacement 2006–2009

Transport	Capital replacement					
	2006	2007	2008	2009	Mean	Trend
Port of Melbourne Corporation	3.53	2.96	5.31	8.21	5.00	▲
Port of Hastings Corporation	0.00	0.02	0.00	0.06	0.02	■
V/Line Passenger Pty Ltd	1.05	0.82	0.94	1.10	0.98	▲
Victoria Rail Track	0.90	1.04	0.64	1.87	1.11	■
Victorian Regional Channel Authority	0.49	3.07	1.32	0.23	1.28	▼
Portfolio average	1.19	1.58	1.64	2.29	1.68	▲

Source: Victorian Auditor-General's Office.

3.5.9 Treasury and Finance

Figure 3AU shows the four year average result for the financial sustainability indicators for VicForests.

Figure 3AU
Treasury and Finance portfolio—four-year average financial sustainability risk assessment 2006–2009

Treasury and Finance	Underlying result (%)	Liquidity	Self-financing (%)	Capital replacement	Overall sustainability
VicForests	2.16%	2.04	2.46%	3.26	●

Source: Victorian Auditor-General's Office.

The overall sustainability for the VicForests has been assessed as medium risk.

The medium risk assessment may indicate that insufficient cash from operations is being generated to fund new assets and asset renewal.

Figures 3AV to 3AY show the annual financial sustainability indicator results and the overall trend for VicForests 2006–2009.

Figure 3AV
Treasury and Finance portfolio—Underlying result (%) 2006–2009

	Underlying result %					
Treasury and Finance	**2006**	**2007**	**2008**	**2009**	**Mean**	**Trend**
VicForests	10.59%	-0.02%	0.41%	-2.35%	2.16%	●

Source: Victorian Auditor-General's Office.

Figure 3AW
Treasury and Finance portfolio—Liquidity 2006–2009

	Liquidity					
Treasury and Finance	**2006**	**2007**	**2008**	**2009**	**Mean**	**Trend**
VicForests	2.60	1.97	1.74	1.87	2.04	●

Source: Victorian Auditor-General's Office.

Figure 3AX
Treasury and Finance portfolio—Self-financing (%) 2006–2009

	Self-financing ratio					
Treasury and Finance	**2006**	**2007**	**2008**	**2009**	**Mean**	**Trend**
VicForests	20.88%	-6.02%	-8.51%	3.50%	2.46%	▼

Source: Victorian Auditor-General's Office.

Figure 3AY
Treasury and Finance portfolio—Capital replacement 2006–2009

	Capital replacement					
Treasury and Finance	**2006**	**2007**	**2008**	**2009**	**Mean**	**Trend**
VicForests	7.62	2.18	1.54	1.72	3.26	▼

Source: Victorian Auditor-General's Office.

Recommendation

7. Portfolio entities should adopt a core suite of financial sustainability indicators.

4 Financial reporting framework

At a glance

Background

The financial reporting framework essentially comprises the *Financial Management Act 1994* and Australian Accounting Standards.

Findings

- A number of changes to the financial reporting framework for the 2008–09 year impacted how financial statements are prepared. Further changes have been foreshadowed to respond to the global financial crisis and the Australian Accounting Standards Board's review of public sector specific standards.
- Application of different accounting policies has resulted in a variance of $8 billion between the valuations of rail infrastructure assets in the state's 2008–09 annual financial report and the 2008–09 financial report of Victorian Rail Track.
- Land under roads, valued at $18.6 billion, has been included in the Annual Financial Report of the State of Victoria (AFR), which is not recognised in VicRoads' financial report for 2008–09.
- It is pleasing that 58 entities in the general government sector adopted the new financial report presentation format consistent with the principles of AASB 1049 *Whole of Government and General Government Sector Financial Reporting*, in the 2008–09 financial year. However, as not all general government entities took this approach, financial statements are being presented differently across the general government sector which limits comparability.
- The Department of Treasury and Finance is conducting a review of the current public finance legislation and practices. This is expected to be completed in 2010.

Recommendations

- The Department of Treasury and Finance should lead the adoption of consistent asset recognition and valuation and financial report presentation policies for whole-of-government and entity level reporting for 2009–10 to improve the consistency and comparability of financial reports within the Victorian public sector.
- The Department of Treasury and Finance and sector entities should coordinate their monitoring and response to proposed accounting standards.

4.1 Changes to the financial reporting framework

During 2008–09 there were a number of changes to the financial reporting framework that were required to be addressed by entities in the preparation of their financial statements.

The main changes in the financial reporting directions (FRD), issued by the Minister for Finance, WorkCover and the Transport Accident Commission (the Minister) under the *Financial Management Act 1994* (FMA), and the Australian Accounting Standards were:

- Financial Reporting Direction 121 *Infrastructure Assets (Water/Rail)*
- Financial Reporting Direction 118 *Land Under Roads*
- *AASB 1049 Whole of Government and General Government Sector Financial Reporting.*

4.1.1 Valuation of infrastructure assets

FRD 121 *Infrastructure Assets (Water/Rail)* requires all water and rail sector entities to value their infrastructure assets at cost in their financial reports. FRD 121 also requires the entities concerned to move to recording the applicable assets at fair value in their individual entity financial reports in either 2009–10 or 2010–11, at the direction of DTF and the Minister.

Conversely, AASB 1049 *Whole of Government and General Government Sector Financial Reporting* requires all infrastructure assets to be valued at fair value in the state's 2008–09 annual financial report (AFR). For entities that measured their infrastructure assets at cost in their 2008–09 financial reports, they were required to determine the fair value of their infrastructure assets and submit the revised financial figures to DTF to facilitate the preparation of the AFR.

This has resulted in an $8 billion difference between infrastructure assets at cost, as reported in the individual audited annual financial report of Victorian Rail Track for the year ended 30 June 2009, and infrastructure assets at fair value for whole-of-government financial reporting purposes. This is in addition to the $7 billion difference for water infrastructure assets as detailed in my report *Water Entities: Results of the 2008–09 Audits* tabled in Parliament on 25 November 2009.

In addition to the inconsistency created by the transitional relief provided in FRD 121, there are also differences in the measurement of infrastructure assets between port entities. In 2008–09, port entities were required by FRD103D Non-Current Physical Assets to measure infrastructure assets at fair value in their financial reports. The Port of Hastings Corporation and the Victorian Regional Channels Authority complied with this requirement. The Minister subsequently provided the Port of Melbourne Corporation (PoMC)with an exemption for the 2008–09 financial report from recording these assets at fair value on 19 August 2009. PoMC advised that a fair valuation could not be provided with sufficient rigor for inclusion in its statutory report. Nevertheless, a valuation for PoMC's infrastructure assets was included in the AFR, resulting in a $26 million revaluation increment.

These inconsistencies in valuation bases between the AFR and certain individual entities at 30 June 2009 highlights the need for a concerted effort to treat like transactions and events consistently across the Victorian Public Sector to achieve consistency and comparability of financial reports.

4.1.2 Land Under Roads

AASB 1051 *Land Under Roads* was issued in 1 July 2008 providing public sector entities a number of options in the recognition and measurement of land under roads for reporting periods ending on or after 31 December 2007. FRD 118 *Land Under Roads* was issued by the Minister in March 2009 to prescribe the requirements for the recognition and measurement of land under roads by the Roads Corporation (VicRoads). The FRD requires VicRoads to measure land under roads at cost, except for land acquired prior to 1 July 2008, which is not recognised as an asset. This resulted in the recognition of $4.4 million of land under roads by VicRoads in its 2008-09 financial report, reflecting land under roads acquired on or after 1 July 2008.

AASB 1049 *Whole of Government and General Government Sector Financial Reporting* requires the state to recognise all land under roads and have it measured at fair value regardless of date of acquisition. As a result, land under roads of $18.6 billion was recognised in the AFR as at 30 June 2009.

The inconsistency between the recognition and measurement of land under roads in the AFR and in VicRoads' financial report highlights the need for the Department of Treasury Finance (DTF) to apply a whole of government perspective in the development of FRDs to promote consistency in reporting by the state and the individual entities which it controls.

4.1.3 Harmonisation of financial reporting requirements

Since June 1999, governments in Australia have been required by AAS 31 *Financial Reporting by Governments* to prepare their annual financial statements based on Generally Accepted Accounting Principles (GAAP). This standard, however, did not specify the basis of preparation for the budget statements. As a result, governments in Australia have used a combination of Government Finance Statistics (GFS) and the GAAP reporting frameworks when reporting their performance against budget, resulting in a lack of comparability across jurisdictions.

Following direction from the Financial Reporting Council, the Australian Accounting Standards Board (AASB) issued AASB 1049 *Whole of Government and General Government Sector Financial Reportin*g in September 2008 to harmonise the GFS and GAAP reporting frameworks to achieve a single set of government reports, which are comparable between jurisdictions, and in which the financial statements are directly comparable with the relevant budget statements. AASB 1049 applies to reporting periods beginning on or after 30 June 2009.

AASB 1049 has resulted in a number of key changes, including:

- the separation of 'transactions' and 'other economic flows' in the comprehensive operating statement in order to distinguish the impact on a government's financial result that are driven by its operating activities and those that arise from movements in the market valuations of assets and liabilities
- the transition in the measurement of assets from cost to fair value, in particular for infrastructure assets
- the explanation of variance between the original budget and financial outcomes at year end.

To enable greater consistency and reliability in the data provided for consolidation in the whole of government and general government sector financial statements, government departments were required to early adopt the revised AASB 101 *Presentation of Financial Statements* when preparing their 2008–09 financial statements in line with the presentation requirements of AASB 1049. This requirement arose from the *2008–09 Model Report for Victorian Government Departments* (the Model) issued by the Minister.

Other public sector entities were also encouraged to adopt the presentation format outlined in the Model, but this was not mandatory. While it is pleasing to note that 58 of the 105 entities in the general government sector, as listed in Figure 4A, chose to adopt the new presentation format in the 2008–09 financial year, not all entities in the sector took this approach. This has resulted in financial statements being presented differently across the general government sector, which limits comparability.

At its October 2009 meeting, the AASB decided to issue non mandatory guidance for entities within the general government sector in preparing GAAP/GFS harmonised general purpose financial statements. This should assist DTF in developing consistent guidance for all entities within the general government sector in the presentation of financial statements.

Figure 4A
Status of revised AASB 101 adoption in the general government sector

Sector	Entity	Early adoption
Parliament	Parliament	✓
	Victorian Auditor-General's Office	✓
Education	Department of Education and Early Childhood Development	✓
	Victorian Curriculum and Assessment Authority	✓
	Victorian Institute of Teaching	✓
	Victorian Registration and Qualifications Authority	✓
Human Services	Department of Human Services	✓
	Ambulance Victoria	✗
	Chinese Medicine Registration Board Victoria	✗
	Chiropractors Registration Board Victoria	✗
	Dental Practice Board of Victoria	✗
	Health Purchasing Victoria	✗
	Infertility Treatment Authority	✗
	Medical Radiation Practitioners Board of Victoria	✗
	Mental Health Review Board	✗
	Nurses Board of Victoria	✗
	Optometrists Registration Board	✗
	Osteopaths Registration Board	✗
	Pharmacy Board of Victoria	✗
	Physiotherapists Registration Board of Victoria	✗
	Podiatrists Registration Board of Victoria	✗
	Psychosurgery Review Board	✗
	Vic Health Promotion Foundation	✗
	Victorian Institute of Forensic Mental Health	✗
Innovation, Industry and Regional Development	Department of Innovation, Industry and Regional Development	✓
	Film Victoria	✓
	Victorian Skills Commission	✓
	Australian Synchrotron Company Limited	✗
	Australian Synchrotron Holding Company Proprietary Limited	✗
	Melbourne Central City Studios	✗
	Tourism Victoria	✗
	NMIT International Limited	✗
Justice	Department of Justice	✓
	Country Fire Authority	✓
	Emergency Services Telecommunications Authority	✓
	Judicial College of Victoria	✓
	Legal Services Board	✓
	Legal Services Commissioner	✓

Figure 4A
Status of revised AASB 101 adoption in the general government sector—*continued*

Sector	Entity	Early adoption
Justice – *continued*	Metropolitan Fire and Emergency Services Board	✓
	Office of Police Integrity	✓
	Office of Public Prosecutions	✓
	Office of the Chief Commissioner of Police	✓
	Office of the Victorian Privacy Commissioner	✓
	Sentencing Advisory Council	✓
	Victoria Legal Aid	✓
	Victoria State Emergency Service Authority	✓
	Victorian Commission for Gambling Regulation	✓
	Victorian Electoral Commission	✓
	Victorian Equal Opportunity and Human Rights Commission	✓
	Victorian Institute of Forensic Medicine	✓
	Victorian Law Reform Commission	✓
	Professional Standards Council	✗
Planning and Community Development	Department of Planning and Community Development	✓
	Adult Community and Further Education Board	✓
	Architects' Registration Board of Victoria	✓
	Building Commission	✓
	Growth Areas Authority	✓
	Plumbing Industry Commission	✓
	Shrine of Remembrance Trustees	✓
	Heritage Council	✗
	Melbourne Cricket Grounds Trust	✗
	Victorian Institute of Sport Limited	✗
	Victorian Institute of Sport Trust	✗
	Victorian Veterans Council	✗
Premier and Cabinet	Department of Premier and Cabinet	✓
	Australian Centre for the Moving Image	✓
	Council of Trustees of the National Gallery of Victoria	✓
	Museums Board of Victoria	✓
	Office of the Ombudsman	✓
	State Services Authority	✓
	Library Board of Victoria	✗
	Melbourne Recital Centre Ltd	✗
	State Library of Victoria Foundation	✗
Primary Industries	Department of Primary Industries	✓
	Energy Safe Victoria	✗
	Veterinary Practitioners Registration Board of Victoria	✗

Figure 4A
Status of revised AASB 101 adoption in the general government sector—*continued*

Sector	Entity	Early adoption
Sustainability and Environment	Department of Sustainability & Environment	✓
	Commissioner of Environmental Sustainability	✓
	Environment Protection Authority	✓
	Parks Victoria	✓
	Royal Botanic Gardens Board	✓
	State-Owned Enterprises for Irrigation Renewal in Northern Victoria	✓
	Sustainability Victoria	✓
	Trust for Nature	✓
	Zoological Parks and Garden Board	✓
	Corangamite Catchment Management Authority	✗
	East Gippsland Catchment Management Authority	✗
	Glenelg Hopkins Catchment Management Authority	✗
	Goulburn Broken Catchment Management Authority	✗
	Mallee Catchment Management Authority	✗
	North Central Catchment Management Authority	✗
	North East Catchment Management Authority	✗
	Port Philip and Westernport Catchment Management Authority	✗
	Surveyor's Registration Board	✗
	West Gippsland Catchment Management Authority	✗
	Wimmera Catchment Management Authority	✗
Transport	Department of Transport	✓
	Roads Corporation	✓
	Southern and Eastern Integrated Transport Authority	✓
	Southern Cross Station Authority	✗
Treasury and Finance	Department of Treasury and Finance	✓
	CenITex	✓
	Essential Services Commission	✓
	Domestic Building Indemnity (HIH) Fund	✗
	Housing Guarantee Claims Fund	✗

Source: Victorian Auditor-General's Office.

Recommendation

8. The Department of Treasury and Finance should lead the adoption of consistent asset recognition and valuation and financial reporting policies for whole-of-government reporting and entity level reporting for 2009–10 to improve the consistency and comparability of financial reports within the Victorian public sector.

4.2 Developments in financial reporting

4.2.1 Review of public finance practices

The Public Accounts and Estimates Committee (PAEC) commenced an inquiry in February 2008 into Victoria's public finance practices and legislation and has tabled two reports in the Parliament, one in November 2008; *New Directions in Accountability Preliminary Report: Inquiry into Victoria's Public Finance Practices and Legislation* and another in June 2009; *New Directions in Accountability.* These reports included a number of recommendations to government for Victoria's new legislation relating to public finance and accountability.

In developing Victoria's new public finance and accountability legislation, DTF is conducting a review of what:

- represents best contemporary management practice for the key elements of financial management, including planning, governance, resource allocation, resource management and accountability
- would be best practice for Victoria's public finance legislative framework
- financial management structure would best support the Westminster system of government in Victoria.

DTF issued a discussion paper for comment in October 2008 to canvas the views of the community and stakeholders. These views will contribute to the development of a new public finance and accountability legislation expected to be introduced into the Parliament late in 2009.

VAGO provided a response to the PAEC inquiry in August 2008 and the DTF discussion paper in December 2008, both of which are available on the respective web sites.

Key matters raised in our response to DTF, from an annual reporting perspective, to assist in maintaining a modern and transparent financial governance framework, included:

- a specific public sector principle-based definition of 'control' should be developed in legislation in order to provide clear and unequivocal guidance as to what constitutes a public sector entity
- provisions for the coverage of audit legislation to include all matters relating to public money and public property should be strengthened
- legislative financial reporting obligations should apply differentially according to the level at which each entity operates, while maintaining public accountability and transparency of public sector entities
- consideration should be given to determining whether the current accounting standards remain sufficient and appropriate in meeting the needs of users of public sector financial reports

- consideration should be given to strengthening the requirements of timely public sector reporting, having regard to developments in other jurisdictions and the private sector
- greater use of reliable and relevant performance measures for public sector performance reporting
- a greater focus on outcome and sustainability reporting, with audit attestation.

4.3 Emerging accounting standards

A number of new or revised accounting standards have been foreshadowed for 2009-10 as a result of:

- the review of accounting standards following the global financial crisis
- AASB review of public sector specific standards
- absence of public sector related party disclosure requirements
- proposals for differential financial reporting.

Entities should consider how the resultant changes in accounting standards may impact their financial statements and related reporting process, including whether existing accounting systems are able to capture appropriate financial information to enable complete and accurate recording of transactions and required disclosure information.

DTF should:

- assess the likely impact of any revised standards on public sector entities, including consideration of the state's responses to the exposure drafts issued by the AASB, including the applicability of the proposed accounting standard to the public sector and the adequacy of the coverage of public sector issues
- monitor the preparedness of public sector entities to respond to and adopt the new/revised accounting standards
- determine the state's policy position on any options available in the new or revised accounting standards, including whether or not to early adopt
- promptly update related financial reporting directions and other guidance after the release of new/revised accounting standards.

Recommendation

9. The Department of Treasury and Finance and sector entities should coordinate their monitoring and responses to proposed accounting standards.

4.3.1 Review of accounting standards following the global financial crisis

The review of accounting standards following the global financial crisis (GFC) continues to have a significant impact on certain aspects of financial reporting, affecting both financial statement preparers and auditors.

In April 2009, the Group of Twenty (G20) Finance Ministers and Central Bank Governors met to respond to the global financial crisis. In the Leaders Communiqué issued following the meeting, the G20 called upon international standard-setters to improve accounting standards on asset valuation and impairment, and to reduce the complexity of accounting standards for financial instruments.

The International Accounting Standards Board (IASB) is reviewing accounting issues emerging from the global financial crisis, including those identified by the G20 in the following areas:

- **providing guidance on fair value measurement**—guidance on how to measure fair value is currently dispersed across a number of accounting standards and is, in some cases, inconsistent. The IASB is creating a single standard to clarify how to measure fair value where existing standards required or permit fair value
- **derecognition of financial assets and liabilities**—this project aims to address when a financial asset or financial liability must be removed from an entity's statement of financial position and the related disclosure requirements
- **simplifying the classification and measurement requirements for financial instruments**—the existing standard is complex and does not always produce the most useful information.

The IASB intends to publish a new or revised accounting standard in relation to each of these topics by 30 June 2010. While the intention is for the mandatory application dates to be staggered, it is expected that each of these proposed standards will be available for early adoption.

The AASB's usual practice in the development of new or revised Australian Accounting Standards includes the issue of exposure drafts for public comment leading to Australian Accounting Standards that are generally based on those of the IASB.

Entities should consider how the proposed new or revised accounting standards may impact their financial statements and related reporting process and respond to the exposure draft process.

4.3.2 AASB review of public sector specific standards

In 2007, the AASB completed a short-term review of the requirements in industry-based standards AAS 27 *Financial Reporting by Local Governments*, AAS 29 *Financial Reporting by Government Departments* and AAS 31 *Financial Reporting by Governments*. This primarily entailed relocating material, substantively unamended, from these standards to topic-based standards.

The AASB has now shifted its focus to improving the requirements of each topic-based standard for issues related to the public sector with the following projects:

- GAAP/GFS harmonisation for entities within the general government sector
- service performance reporting, which relates to issuing guidance on the reporting of non-financial information
- accounting for the emissions trading scheme from a government perspective
- concept of control in the public sector
- related party disclosures
- impairment of statutory receivables.

However, there are also a number of other projects relating to the public sector for which the AASB does not currently have resources to address.

This office, in conjunction with the Australasian Council of Auditors-General (ACAG), has been liaising with the AASB to highlight priority areas for the public sector that are not adequately dealt with in the current AASB standards. The AASB has indicated that its staff will be revising the public sector strategic plan, using input from public sector constituents.

DTF and entities individually should provide input to the AASB during the development of the revised public sector strategic plan. This will assist the AASB in developing appropriate standards for the public sector to better meet the needs of financial statement preparers and users.

4.3.3 Differential reporting

Differential financial reporting is the application of differing or reduced accounting standard requirements by smaller organisations commensurate with their financial reporting obligations and capabilities.

The IASB has released *IFRS for Small and Medium-Sized Entities* (IFRS for SMEs). This is a self-contained standard for small and medium-sized entities.

Many of the principles in the full International Financial Reporting Standards (IFRS) for recognising and measuring assets, liabilities, income and expenses have been simplified, topics not relevant to SMEs have been omitted and the number of required disclosures has been significantly reduced in the IFRS for SMEs.

The IASB has not set an effective date for the application of this standard as the decision as to whether and when to adopt IFRS for SMEs is a matter for each jurisdiction.

At present, IFRS for SMEs cannot be applied in Australia because the AASB has not issued it as an Australian accounting standard.

The AASB is developing proposals for a revised differential reporting regime in Australia. The AASB is intending to issue a consultative paper that proposes a second tier of financial reporting requirements for general purpose financial statements of SMEs. The proposals would require full IFRS recognition and measurement accounting policy options with disclosures substantially less than those required by full IFRS.

The consultative paper is expected to be published for public comment before the end of 2009, with the objective of reducing disclosure requirements for applicable entities for years ending 30 June 2010.

DTF is also considering a revised differential reporting framework for the Victorian public sector as part of its proposal for the new public finance and accountability legislation. It is important that a close watch on the AASB's differential reporting proposals be maintained so that Victoria's proposed differential reporting regime is reconcilable with the AASB.

5 Parliament

At a glance

Portfolio overview

The Parliament portfolio comprises two reporting entities, the Parliament of Victoria and the Victorian Auditor-General's Office (VAGO).

The portfolio is responsible for providing apolitical, professional and innovative services to Parliament.

The Parliament of Victoria comprises the Crown (represented by the Governor) and the two Houses of Parliament (the Legislative Council and the Legislative Assembly), which collectively form the legislature.

Parliament is not required to report on its administrative activities. However, under a standing arrangement with the Presiding Officers of both Houses, VAGO audits the annual financial report of the Parliament of Victoria, which is prepared by the Department of Parliamentary Services.

As the Auditor-General is an Officer of Parliament, the auditor for the financial report of VAGO is appointed by Parliament on the recommendation of its Public Accounts and Estimates Committee.

Findings

- Clear audit opinions were issued on all financial reports for entities with 30 June 2009 balance dates in this portfolio.
- Both entities within this portfolio achieved the 12-week time frame required under the *Financial Management Act 1994*, the same as last year.

5.1 Introduction

The Parliament of Victoria, through its elected representatives, is accountable to the Victorian community for the provision and conduct of representative government in the interests of Victorians.

The departments of the Parliament of Victoria deliver apolitical, professional and innovative services to Parliament.

5.1.1 Portfolio outputs

The portfolio output structure for 2008–09 is as follows:

- **Legislative Council**—provides procedural advice to members of the Legislative Council, including processing of legislation, preparation of the records of the proceedings and documentation required for the sittings of the council, provision of assistance to parliamentary committees; provision of information relating to the proceedings of the council and the enhancement of public awareness of Parliament.
- **Legislative Assembly**—provides procedural advice to members of the Legislative Assembly.
- **Parliamentary Services**—provides consultancy, advisory and support services in the areas of library, Hansard, education, human resources, finance, information technology, maintenance, ground and facilities for the Parliament of Victoria.
- **Parliamentary Investigatory Committees**—the joint investigatory committees are appointed pursuant to the *Parliamentary Committees Act 2003* to inquire into and report on matters referred by either House or the Governor in Council or which may be self-generated by a committee.
- **Victorian Auditor-General's Office**—provides independent assurance to Parliament on the accountability and performance of the public sector by way of parliamentary reports and services and audit reports on financial statements.

For the financial year the portfolio reported revenue of $150.3 million and expenditure of $147.0 million. At 30 June the portfolio had net assets of $248 million.

5.1.2 Portfolio composition

The Parliament portfolio comprises the Parliament of Victoria and the Victorian Auditor-General's Office with 30 June 2009 balance dates.

Parliamentary operations are funded through appropriations to the Department of Parliamentary Services (DPS), which in turn, service the two Houses of Parliament and their associated committees. DPS also provides administrative support to members and electorate offices. As the Auditor-General is an Officer of the Parliament, appropriations are also provided to VAGO.

The number of portfolio entities with 30 June balance dates remains unchanged from 2007–08.

5.1.3 Presiding officers

The presiding officers for the portfolio are:

- President of the Legislative Council, The Hon. Robert Smith MLC
- Speaker of the Legislative Assembly, The Hon Jenny Lindell MP.

5.1.4 Reporting framework

Parliament is not required by legislation to report on its administrative activities. However, the Parliament of Victoria's financial report is audited by the Auditor-General under a standing arrangement with the Presiding Officers of both Houses.

VAGO is required by the *Financial Management Act 1994* to prepare a financial report. The financial report is audited by an independent auditor and transmitted to each House of the Parliament, pursuant to section 7B of the *Audit Act 1994*.

5.2 Results of audits

Clear audit opinions were issued on all financial reports for entities with 30 June 2009 balance dates in this portfolio.

Both entities within this portfolio achieved the 12-week time frame required under the *Financial Management Act 1994*, the same as last year.

Figure 7A
Audit status—Parliament

	Reporting framework		Financial reports		Finalised within statutory time frame	
Entity	**FMA**	**Non-FMA**	**Clear opinion issued**	**Audit report signed**	**Met**	**Not met**
Completed audits with 30 June 2009 balance dates						
Parliament of Victoria [(a)]	●		✓	17 Aug 2009	●	
Victorian Auditor-General's Office [(b)]	●		✓	25 Aug 2009	●	
2008–09 Total number of entities = 2	**2**	**0**			**2**	**0**
				Per cent	**100**	**0**
2007–08 Total number of entities = 2	2	0			2	0
				Per cent	100	0

(a) The Parliament of Victoria is an audit by arrangement pursuant to section 16G of the *Audit Act 1994* and is not required to prepare a general purpose financial report; however, it does in accordance with the *Financial Management Act 1994.*

(b) The Victorian Auditor-General's Office was audited by a private sector auditor, pursuant to section 7B *Audit Act 1994.*

Source: Victorian Auditor-General's Office.

● Yes
✓ Clear opinion
✗ Qualified opinion
▲ Emphasis of matter

6 Education and Early Childhood Development

At a glance

Portfolio overview

The Education and Early Childhood Development portfolio is comprised of four entities, including one material entity, the Department of Education and Early Childhood Development (DEECD).

The portfolio is responsible for providing policy and planning advice for all stages of education and early childhood development. The portfolio operates a central and nine regional offices, and 1 587 schools across the state.

Findings

- Clear audit opinions were issued on all financial reports for entities with 30 June 2009 balance dates in this portfolio.
- The timeliness of financial reporting for entities in this portfolio declined, with 50 per cent of entities achieving the 12-week time frame required under the *Financial Management Act 1994*, down from 100 per cent in 2007–08.

6.1 Introduction

The portfolio provides a high quality coherent birth to adulthood service system to develop the capability of Victoria's people.

6.1.1 Portfolio outputs

The output structure for the 2008–09 financial year is as follows:

- **Early Years (schools)**—provides education and other associated services to students in prep to year four in government and non-government schools.
- **Middle Years (schools)**—provides education and other associated services to students in years five to nine in government and non-government schools.
- **Later Years and Youth Transitions**—provides education and other associated services to students in years ten to twelve in government and non-government schools.
- **Services to Students**—provides student welfare and support, services to students with disabilities, education maintenance allowance, school start-up payments and student transport.
- **Policy and Regulation**—provides policy, administrative support and strategy advice to the ministers in relation to their parliamentary and legislative responsibilities.
- **Adolescent Health Services (schools)**—provides school nursing services for secondary school-aged children.
- **Early Childhood Services**—provide a range of services that support children in the early years, including kindergarten and child care, maternal and child health, school nursing for primary school aged children, and early intervention services for children with a disability.

For the financial year the portfolio recognised $7 844.8 million revenue and $7 836.3 million expenditure. As at 30 June the portfolio had net assets of $11 634.0 million.

6.1.2 Portfolio composition

The Education and Early Childhood Development portfolio comprises the Department of Education and Early Childhood Development and three entities with 30 June 2009 balance dates.

At 30 June 2009, the portfolio supported and advised two ministerial portfolios:

- education
- children and early childhood development.

The number of portfolio entities with 30 June balance dates remains unchanged from 2007–08.

6.1.3 Ministers

The ministers for the portfolio are:

- Minister for Children and Early Childhood Development, The Hon. Maxine Morand MLA
- Minister for Education, The Hon. Bronwyn Pike MLA.

6.1.4 Reporting framework

All of the entities in the Education and Early Childhood Development portfolio are required by the *Financial Management Act 1994* (FMA) to prepare a financial report and have the report audited by the Auditor-General.

6.2 Results of audits

Clear audit opinions were issued on all financial reports for entities with 30 June 2009 balance dates in this portfolio. The timeliness of financial reporting for entities in this portfolio declined, with 50 per cent of entities achieving the 12-week time frame required under the *Financial Management Act 1994*, down from 100 per cent in 2007-08.

Figure 6A
Audit status—Education and Early Childhood Development portfolio

Entity	Reporting framework		Financial reports		Finalised within statutory time frame	
	FMA	Non-FMA	Clear opinion issued	Auditor-General report signed	Met	Not met
Completed audits with 30 June 2009 balance dates						
Department of Education and Early Childhood Development	●		✓	25 Aug 2009	●	
Victorian Curriculum and Assessment Authority*	●		✓	25 Sep 2009		●
Victorian Institute of Teaching	●		✓	15 Sep 2009	●	
Victorian Registration and Qualifications Authority*	●		✓	29 Sep 2009		●
2008–09 Total number of entities = 4	**4**	**0**			**2**	**2**
				Per cent	**50**	50
2007–08 Total number of entities = 4	4	0			4	0
				Per cent	**100**	–

Note: * The scheduling of the external audit contributed to this entity not meeting their statutory deadline.
Source: Victorian Auditor-General's Office.

● Yes
✓ Clear opinion
✗ Qualified opinion
▲ Emphasis of matter

7 Human Services

At a glance

Portfolio overview

The Human Services portfolio is comprised of 146 entities, including nine material entities; the Department of Human Services and eight public hospitals.

The results of the financial statement audit of 32 entities comprising the Department of Human Services, cemeteries and certain other portfolio reporting entities are included in this report. The results of the audits of 114 entities, including public hospitals, the entities they control, and rural health information technology alliances have been included in a separate report, *Public Hospitals: Results of the 2008–09 Audits* tabled in Parliament on 11 November 2009.

The portfolio provides services to enhance and protect the health and wellbeing of all Victorians, emphasising vulnerable groups and those most in need.

Findings

- Clear audit opinions were issued on all financial reports for entities with 30 June 2009 balances dates included in this report, 18 of which included an emphasis of matter, principally cemeteries and professional medical boards, drawing attention to the uncertainty about their continuation as a going concern.
- The timeliness of financial reporting for entities in this portfolio improved, with 72 per cent of entities achieving the 12-week time frame required under the *Financial Management Act 1994*, up from 56 per cent in 2007–08.
- There are several important elements relating to the new national registration scheme for 12 different health professions that had not been fully determined at the date of preparing this report, including:
  - the accountability and financial reporting regime for the proposed national health registration bodies
  - the proposed arrangements for the transfer of the net assets of existing state registration boards to the national bodies. Victoria's health registration boards currently hold around $25 million in net assets.

7.1 Introduction

The portfolio provides services to enhance and protect the health and wellbeing of all Victorians, emphasising vulnerable groups and those most in need.

7.1.1 Portfolio outputs

The output structure for 2008–09 is as follows:

- **Acute Health Services**—provides a range of timely and high quality hospital inpatient, ambulatory, emergency, community-based and specialist services.
- **Ambulance Services**—provides emergency and non-emergency ambulance services.
- **Mental Health**—provides a range of inpatient, community-based residential and ambulatory services, which treat and support people with mental illness, their families and carers.
- **Aged and Home Care**—provides a range of in-home, community-based, specialist geriatric and residential care services for older people.
- **Primary and Dental Health**—provides a range of community-based, primary health and dental services, designed to promote health and wellbeing and prevent the onset of more serious illnesses.
- **Small Rural Services**—provides a range of health and aged care services delivered in small rural towns. The funding and service delivery approach focuses on achieving a sustainable, flexible service mix that is responsive to local needs.
- **Public Health**—provides leadership, services and support, which promote and protect the health and wellbeing of Victorians in partnership with key stakeholders and communities.
- **Drug Services**—provides programs to promote and protect the health and wellbeing of Victorians by reducing death, disease and social harm caused by the use and misuse of illicit drugs.
- **Disability Services**—provides continuing care and support services for people with disabilities, their carers and their families.
- **Child Protection and Family Services**—provides services through the funding of statutory child protection services, family support and parenting services, adoption and placement care services and specialist support services to ensure the safety and wellbeing of adolescents and children at risk of harm, abuse and neglect.
- **Youth Services and Youth Justice**—provides funding for a range of services, such as advice, community based and custodial supervision, youth services and school nursing services for secondary school aged children.
- **Concessions to Pensioners and Beneficiaries**—develops and coordinates the delivery of concessions and relief grants to eligible consumers and concession cardholders.

- **Housing Assistance**—provides homelessness services, crisis and transitional accommodation and long-term adequate, affordable and accessible housing assistance, coordinated with support services where required, home renovation assistance and the management of the home loan portfolio.

For the financial year the portfolio recognised revenue of $16 442.1 million and expenditure of $13 637.9 million. At 30 June the portfolio had net assets of $18 914.3 million.

7.1.2 Portfolio composition

The results of the financial statement audit of the Department of Human Services, cemeteries and certain other portfolio reporting entities are included in this report. The results of the audits of public hospitals, the entities they control and rural health information technology alliances have been included in a separate report, *Public Hospitals: Results of the 2008–09 Audits* tabled in Parliament on 11 November 2009.

At 30 June 2009, the portfolio supported and advised five ministerial portfolios:
- community services
- health
- housing
- mental health
- senior Victorians.

The changes to the entities within this portfolio from 2007–08 are:
- The Metropolitan Ambulance Service, Rural Ambulance Victoria and Alexandra District Ambulance Service were abolished under section 23 of the *Ambulance Services Act 1986*. The three ambulance services were replaced by one ambulance service, Ambulance Victoria. All powers, assets, liabilities and obligations of the three entities were transferred to the newly created ambulance service, effective from 1 July 2008.
- Subsequent to 30 June 2009, the Premier announced the creation of a new Department of Health which will incorporate health, mental health and drugs and aged care and a new Department of Human Services which will comprise of disability, housing, children, youth and families effective from 12 August 2009. The Department of Health will support the Ministers for Health and Mental Health and the coordinating minister for the department is the Minister for Health. The Department of Human Services will continue to support the Minister for Community Services and the Minister for Housing. The Minister for Community Services is the coordinating minister.

7.1.3 Ministers

The ministers for the portfolio are:

- Minister for Health, The Hon. Daniel Andrews MP
- Minister for Mental Health, Minister for Community Services and Minister for Senior Victorians, The Hon. Lisa Neville MP
- Minister for Housing, The Hon. Richard Wynne MP.

7.1.4 Reporting framework

All human service entities in this report are required by the *Financial Management Act 1994* (FMA) to prepare a financial report and have the report audited by the Auditor-General.

7.2 Results of audits

Clear audit opinions were issued on all financial reports for entities with 30 June 2009 balances dates included in this portfolio chapter, 18 of which included an emphasis of matter, drawing attention to the uncertainty about their continuation as a going concern. The timeliness of financial reporting for entities in this portfolio improved, with 72 per cent of entities achieving the 12-week time frame required under the *Financial Management Act 1994*, up from 56 per cent in 2007–08.

7.2.1 Cemetery reform

Metropolitan cemetery reforms announced by the state government in July 2008 included the creation of the Southern Metropolitan Cemetery Trust and the Greater Metropolitan Cemetery Trust as set out in Figure 7A.

Figure 7A
Merger of cemetery trusts

New cemetery trusts	Existing cemetery trusts to be merged into new entity
Southern Metropolitan Cemeteries Trust	The Trustees of the Necropolis Springvale
	Cheltenham and Regional Cemeteries Trust
Greater Metropolitan Cemeteries Trust	Fawkner Crematorium and Memorial Park
	Altona Memorial Park
	Anderson's Creek Cemetery Trust
	Keilor Cemetery Trust
	Lilydale Cemetery Trust
	Preston Cemetery Trust
	Templestowe Cemetery Trust
	Wyndham Cemeteries Trust

Source: Victorian Auditor-General's Office.

The *Cemeteries and Crematoria Amendment Act 2009* was passed in Parliament and received royal assent on 27 October 2009.

The Ballarat General Cemeteries Trust, Bendigo Cemeteries Trust, Geelong Cemeteries Trust and Mildura Cemeteries Trust will continue to operate and report as separate legal entities.

7.2.2 National registration scheme

On 26 March 2008 the Council of Australian Governments executed an intergovernmental agreement to establish a single national scheme encompassing the registration and accreditation functions for 12 different health professions. The first phase of the scheme, which is to commence on 1 July 2010, encompasses the 10 health registration boards nominated in Figure 7B. The remaining two health registration boards will not become part of the national scheme until 1 July 2012.

Figure 7B
Victorian health registration boards nominated for the national registration scheme

First phase—1 July 2010

- Chiropractors Registration Board of Victoria
- Dental Practice Board of Victoria
- Medical Practitioners Board of Victoria[1]
- Nurses Board of Victoria
- Optometrists Registration Board of Victoria
- Osteopaths Registration Board of Victoria
- Pharmacy Board of Victoria
- Physiotherapists Board of Victoria
- Podiatrists Registration Board of Victoria
- Psychologists Registration Board of Victoria[2]

Second phase—1 July 2012

- Chinese Medicine Registration Board of Victoria
- Medical Radiation Practitioners Board of Victoria

Source: Victorian Auditor-General's Office.

[1] Medical Practitioners Board of Victoria has a 30 September balance date.

[2] Psychologists Registration Board of Victoria has a 31 December balance date.

It is expected that legislation will be enacted during the 2009–10, which will give effect to the intergovernmental agreement. This will effect the transition on 1 July 2010 of the services, assets and liabilities of the 10 respective state health registration boards to the relevant national body, which will then become the regulatory body responsible for the registration and monitoring of the relevant health professionals throughout Australia.

There are several important elements relating to the proposed national registration scheme that had not been fully determined at the date of preparing this report, including:

- state legislation being enacted to repeal certain sections of the *Health Professions Registrations Act 2005*
- the accountability and financial reporting regime for the new national boards
- the proposed arrangements for the transfer of the net assets of existing state registration boards to the national health registration bodies. Victoria's health registration boards currently hold around $25 million in net assets, which have been derived over a number of years from member contributions. Not all states currently have stand-alone registration boards with net assets.

Figure 7C
Audit status—Human Services portfolio

Entity	Reporting framework		Financial reports		Finalised within statutory time frame	
	FMA	Non-FMA	Clear opinion issued	Auditor-General's report signed	Met	Not met
Completed audits with 30 June 2009 balance dates						
Department of Human Services	●		✓	28 Aug 2009	●	
Ambulance services						
Ambulance Victoria [(a)]	●		✓	18 Sep 2009	●	
Major cemeteries						
Altona Memorial Park	●		▲	23 Sep 2009		●
Anderson's Creek Cemetery Trust	●		▲	30 Sep 2009		●
Ballarat General Cemetery Trust	●		✓	21 Oct 2009		●
Bendigo Cemeteries Trust	●		✓	9 Sep 2009	●	
Cheltenham & Regional Cemeteries Trust	●		▲	11 Sep 2009	●	
Fawkner Crematorium and Memorial	●		▲	10 Sep 2009	●	
Geelong Cemeteries Trust	●		✓	31 Aug 2009	●	
Keilor Cemetery Trust	●		▲	26 Oct 2009		●
Lilydale Memorial Park	●		▲	5 Oct 2009		●
Mildura Cemetery Trust	●		✓	6 Oct 2009		●
Necropolis Springvale Trust	●		▲	4 Sep 2009	●	
Preston Cemetery Trust	●		▲	14 Sep 2009	●	
Templestowe Cemetery Trust	●		▲	28 Sep 2009		●
Wyndham Cemeteries Trust	●		▲	7 Sep 2009	●	
Other public bodies						
Chinese Medicine Registration Board Victoria	●		✓	25 Aug 2009	●	
Chiropractors Registration Board Victoria	●		▲	18 Sep 2009	●	
Dental Practice Board of Victoria	●		▲	21 Sep 2009	●	
Health Purchasing Victoria	●		✓	28 Aug 2009	●	

Figure 7C
Audit status—Human Services portfolio–*continued*

	Reporting framework		Financial reports		Finalised within statutory time frame	
Entity	**FMA**	**Non-FMA**	**Clear opinion issued**	**Auditor-General's report signed**	**Met**	**Not met**
Completed audits with 30 June 2009 balance dates – *continued*						
Other public bodies – *continued*						
Infertility Treatment Authority	●		✓	7 Sep 2009	●	
Medical Radiation Practitioners Board of Victoria	●		✓	22 Sep 2009	●	
Mental Health Review Board	●		✓	28 Sep 2009		●
Nurses Board of Victoria	●		▲	10 Sep 2009	●	
Optometrists Registration Board	●		▲	14 Sep 2009	●	
Osteopaths Registration Board	●		▲	22 Sep 2009	●	
Pharmacy Board of Victoria	●		▲	14 Sep 2009	●	
Physiotherapists Registration Board of Victoria	●		▲	22 Sep 2009	●	
Podiatrists Registration Board of Victoria	●		▲	22 Sep 2009	●	
Psychosurgery Review Board	●		✓	28 Sep 2009		●
Vic Health Promotion Foundation	●		✓	9 Sep 2009	●	
Victorian Institute of Forensic Mental Health	●		✓	9 Sep 2009	●	
2008–09 Total number of entities = 32	**32**	**0**			**23**	**9**
				Per cent	**72**	**28**
2007–08 Total number of entities = 34	34	0			18	16
				Per cent	53	47

(a) Ambulance Victoria formed as a result of a merger between Metropolitan Ambulance Service, Alexandra District Ambulance Service and Rural Ambulance Service.

Source: Victorian Auditor-General's Office.

● Yes
✓ Clear opinion
✗ Qualified opinion
▲ Emphasis of matter

8 Innovation, Industry and Regional Development

At a glance

Portfolio overview

The Innovation, Industry and Regional Development portfolio is comprised of 16 entities, including two material entities; the Department of Industry, Innovation and Regional Development (DIIRD) and the Victorian Skills Commission.

The portfolio develops and implements a diverse range of programs, initiatives and projects designed to attract and facilitate investment, encourage exports and industries, foster skills, stimulate innovation and promote Victoria nationally and internationally.

Findings

- Clear audit opinions were issued on the financial reports for 15 of the 16 entities in this portfolio.
- A qualified audit opinion was issued on the financial report of Melbourne Central City Studios due to the inability to audit the 2007–08 comparative figures.
- The timeliness of reporting for entities under the *Financial Management Act 1994* improved, with 89 per cent of entities achieving the 12-week time frame, up from 78 per cent in 2007–08.
- The timeliness of entities reporting under the *Corporations Act 2001* declined, with 86 per cent of entities meeting the statutory time frame, down from 100 per cent in 2007–08.

8.1 Introduction

The portfolio develops and implements a diverse range of programs, initiatives and projects designed to attract and facilitate investment, encourage exports and industries, foster skills, stimulate innovation and promote Victoria nationally and internationally.

8.1.1 Portfolio outputs

The output structure for the 2008–09 financial year is as follows:

- **Industries and Innovation**—drive sustainability and enduring economic growth in industries across Victoria through programs and initiatives that support research, innovation and commercialisation and a thriving small business sector.
- **Investment and Trade**—aim to optimise the trade opportunities through investment attraction and facilitation services and export development initiatives and assistance.
- **Regional Development**—support for sustained economic and industry development of provincial Victoria. Regional Development Victoria (RDV) takes a leading role in the delivery of outputs.
- **Skills and Workforce**—support the labour and skills needs of industry through the planning and purchasing of vocational education and training services and the provision of targeted employment initiatives and facilitate cooperative, flexible and productive workplaces.
- **Marketing Victoria**—promotion of Victoria both domestically and internationally as a great place to live, work, invest, visit and learn by positioning Victoria as a distinct, competitive and fair business environment, exporter and tourist destination.

For the financial year the portfolio recognised $3 246.2 million revenue and $3 202.3 million expenditure. As at 30 June the portfolio had net assets of $2 478.6 million.

8.1.2 Portfolio composition

The Innovation, Industry and Regional Development portfolio comprises the Department of Innovation, Industry and Regional Development (DIIRD) and 15 other entities with 30 June 2009 balance dates.

At 30 June 2009, the portfolio supported and advised the following nine ministerial portfolios:

- industrial relations
- industry and trade
- information and communication technology
- regional and rural development
- skills and workforce participation
- small business and innovation

- tourism and major events
- major projects
- financial services.

The changes to the entities within this portfolio from 2007–08 are:

- Melbourne Central City Studios was acquired by the state in November 2008. The state purchased all the shares in the holding company operating the film and television studios for $6 million.
- In April 2009, the government transferred the responsibility of the Melbourne Market Authority from the Department of Primary Industries to the Department of Innovation, Industry and Regional Development.
- Prince Henry's Institute of Medical Research was incorporated under the *Corporations Act 2001* as a company limited by guarantee on 1 July 2008 and begun operations on 1 January 2009. As a result, the company is no longer controlled by the state or any public body, and therefore is not subject to audit under the *Audit Act 1994.*
- VAGO dispensed with the requirement to audit the financial statements of Victoria Trade and Investment Office Pty Ltd (VTIO) as provided for in Section 8(2) of the *Audit Act 1994.* This determination was made as the financial reporting obligations for VTIO are adequately encompassed in the audit of the Department of Innovation, Industry and Regional Development.

8.1.3 Ministers

The minsters for the portfolio are:

- Minister for Financial Services and Minister for Information and Communication Technology, The Hon. John Lenders MLC
- Minister for Industry and Trade and Minister of Industrial Relations, The Hon. Martin Pakula MLC
- Minister for Innovation, The Hon. Gavin Jennings MLC
- Minister for Major Projects, The Hon. Tim Pallas MLA
- Minister for Regional and Rural Development and Minister for Skills and Workforce Participation, The Hon. Jacinta Allan MP
- Minster for Small Business, The Hon. Joe Helper MLA
- Minister for Tourism and Major Events, The Hon. Tim Holding MLA.

8.1.4 Reporting framework

Nine of the 16 entities in the Industry, Innovation and Industry Development portfolio are required by the *Financial Management Act 1994* (FMA) to prepare a financial report and have the report audited by the Auditor-General. The remaining seven entities prepare their financial reports in accordance with the *Corporations Act 2001*.

8.2 Results of audits

Clear audit opinions were issued on the financial reports for 15 of the 16 entities in this portfolio.

The timeliness of reporting for entities under the *Financial Management Act 1994* improved, with 89 per cent of entities achieving the 12-week time frame, up from 78 per cent in 2007–08.

The timeliness of entities reporting under the *Corporations Act 2001* declined, with 86 per cent of entities meeting the statutory time frame, down from 100 per cent in 2007–08.

A qualified audit opinion was issued on the 2007–08 figures for Melbourne Central City Studios due to a limitation of scope.

The financial report of Melbourne Central City Studios Pty Ltd as at 30 June 2008 was audited by another auditor; whose report dated 28 October 2008 expressed an unqualified opinion on those statements. The Auditor-General,however, was unable to obtain sufficient and appropriate audit evidence regarding the comparatives and therefore a qualified opinion has been issued on the 2007–08 figures.

Figure 8A
Audit status—Innovation, Industry and Regional Development portfolio

	Reporting framework		Financial reports		Finalised within statutory time frame	
Entity	**FMA**	**Non-FMA**	**Clear opinion issued**	**Auditor-General's report signed**	**Met**	**Not met**
Completed audits with 30 June 2009 balance dates						
Department of Innovation, Industry and Regional Development	●		✓	28 Aug 2009	●	
Innovation						
Australian Synchrotron Company Limited		C	✓	25 Sep 2009	●	
Australian Synchrotron Holding Company Proprietary Limited		C	✓	25 Sep 2009	●	
Fed Square Pty Ltd		C	✓	1 Oct 2009	●	
Film Victoria	●		✓	11 Sep 2009	●	
Melbourne Central City Studios [(a)]		C	✗	12 Nov 2009		●
Skills and workforce participation						
NMIT International Limited		C	✓	23 Sep 2009	●	
TAFE Development Centre Ltd		C	✓	22 Sep 2009	●	
VCAMM Limited		C	✓	22 Oct 2009	●	
Victorian Skills Commission	●		✓	17 Sep 2009	●	
Victorian Tertiary Admissions Centre	●		✓	20 Oct 2009		●
Tourism and major events						
Australian Grand Prix Corporation	●		✓	14 Sep 2009	●	
Emerald Tourist Railway Board	●		✓	15 Sep 2009	●	
Melbourne Convention and Exhibition Trust	●		✓	22 Sep 2009	●	
Melbourne Market Authority	●		✓	11 Sep 2009	●	
Tourism Victoria	●		✓	3 Sep 2009	●	

Figure 8A
Audit status—Innovation, Industry and Regional Development portfolio – *continued*

	Reporting Framework		Financial reports		Finalised within statutory time frame	
Entity	**FMA**	**Non-FMA**	**Clear opinion issued**	**Auditor-General's report signed**	**Met**	**Not met**
2008–09 Total number of entities = 16	**9**	**7**			**14**	**2**
				Per cent	**88**	**12**
2007–08 Total number of entities = 16	9	7			14	2
				Per cent	87	13

(a) Melbourne Central City Studios is a new entity which became effective from 19 November 2008.

Source: Victorian Auditor-General's Office.

- ● Yes
- C *Corporations Act 2001*
- ✓ Clear opinion
- ✗ Qualified opinion
- ▲ Emphasis of matter

9 Justice

At a glance

Portfolio overview

The Justice portfolio is comprised of 27 entities, including five material entities; the Department of Justice (DOJ), Country Fire Authority, Metropolitan Fire and Emergency Service Board, Victoria Police and the Victorian Commission for Gambling Regulation.

The portfolio provides policy and organisational management focus for the vision of a safe, just, innovative and thriving Victoria, where rights are respected and diversity embraced.

The portfolio is responsible for the administration of civil and criminal justice and public safety; responsible management and regulation of gaming and racing; and providing an effective framework for consumer affairs.

Findings

- Clear audit opinions were issued on the financial reports for all of the entities with 30 June 2009 balance dates in this portfolio.
- The timeliness of financial reporting by the 25 entities under the *Financial Management Act 1994* declined, with 76 per cent of entities achieving the 12-week time frame, down from 96 per cent in 2007–08.
- HRV Management Limited reporting under the *Corporations Act 2001* met its statutory time line in 2008–09, the same as last year.

9.1 Introduction

The portfolio provides policy and organisational management focus for the vision of a safe, just, innovative and thriving Victoria, where rights are respected and diversity embraced.

9.1.1 Portfolio outputs

The output structure for the 2008–09 financial year is as follows:

- **Providing a Safe, Secure and Orderly Society**—aimed at enabling people to undertake their lawful pursuits confidently and safely and support the aim of providing access to high quality policing services that are delivered fairly and with integrity.
- **Legal Support to Government and Protecting the Rights of Victorians**—provide the department's primary focus for state law reform, the development of justice policy and procedures, provision of legal advice to other departments and the implementation of new or amending legislation.
- **Dispensing Justice**—support the state's judiciary in their dispensation of criminal and civil matters, maintaining the administrative operations of the system of courts and statutory tribunals, and providing alternative civil dispute resolution mechanisms. These outputs also incorporate the management of criminal prosecutions on behalf of the state.
- **Community Operations**—enforcing judicial fines, court orders and warrants, and processing traffic infringement notices. Unpaid fines are also followed up on behalf of local government, on a fee-for-service basis. A key strategic priority of these outputs is to ensure the infringements notice system, which aims to manage public order and regulate safety in some industries, remains fair and effective.
- **Supporting the State's Fire and Emergency Services**—support to emergency prevention and response services provided by the Metropolitan Fire and Emergency Services Board, Country Fire Authority and State Emergency Services, to reduce death and injury rates and to improve emergency response times.
- **Enforcing Correctional Orders**—aim to ensure that correctional dispositions of the courts and orders of the Adult Parole Board are implemented through the management of the state's system of correctional facilities and programs for the containment and rehabilitation of prisoners as well as the community-based supervision of offenders.
- **Protecting Consumers**—aims to ensure consumers are protected through appropriate regulation and education that promotes awareness and compliance with consumer laws, specifically focusing on the needs of vulnerable and disadvantaged consumers, and providing flexible dispute resolution and fostering business and industry growth.

- **Regulating Gaming and Racing**—focuses on policy development, regulation, research and community education and the delivery of problem gambling services to achieve responsible, safe and sustainable gambling and racing environments.

For the financial year the portfolio recognised $6 783.9 million revenue and $6 582.6 million expenditure. As at 30 June the portfolio had net assets of $3 621.7 million.

9.1.2 Portfolio composition

The Justice portfolio comprises the Department of Justice (DOJ) and 26 entities with 30 June 2009 balance dates.

At 30 June 2009, the Justice portfolio supported and advised six ministerial portfolios:

- Attorney-General
- consumer affairs
- corrections
- gaming
- police and emergency services
- racing.

There were no changes to the entities within this portfolio from 2007–08.

9.1.3 Ministers

The ministers for the portfolio are:

- Minister for Racing and the Attorney-General, The Hon. Rob Hulls MP
- Minister for Consumer Affairs and Minister for Gaming, The Hon. Tony Robinson MP
- Minister for Corrections and Minister for Police and Emergency Services, The Hon. Bob Cameron MP.

9.1.4 Reporting framework

Twenty-five of the twenty-seven entities in the Justice portfolio are required by the *Financial Management Act 1994* (FMA) to prepare a financial report and have the report audited by the Auditor-General. HRV Management Limited prepares its financial report in accordance with the *Corporations Act 2001*, and the Senior Master of the Supreme Court prepares its financial report in accordance with the *Supreme Court Act 1986*.

9.2 Results of audits

Clear audit opinions were issued on the financial reports for all of the entities with 30 June 2009 balance dates in this portfolio.

The timeliness of financial reporting by the 25 entities under the *Financial Management Act 1994* declined, with 76 per cent of entities achieving the 12-week time frame, down from 96 per cent in 2007–08.

HRV Management Limited reporting under the *Corporations Act 2001* met its statutory time line in 2008–09, the same as last year.

Figure 9A
Audit status—Justice portfolio

Entity	Reporting framework		Financial reports		Finalised within statutory time frame	
	FMA	Non-FMA	Clear opinion issued	Auditor-General's report signed	Met	Not met
Completed audits with 30 June 2009 balance dates						
Department of Justice	●		✓	28 Aug 2009	●	
Attorney-General						
Judicial College of Victoria	●		✓	18 Sep 2009	●	
Legal Practitioners Liability Committee	●		✓	8 Sep 2009	●	
Legal Services Board	●		✓	7 Oct 2009		●
Legal Services Commissioner	●		✓	15 Sep 2009	●	
Office of Public Prosecutions	●		✓	27 Sep 2009		●
Office of the Victorian Privacy Commissioner	●		✓	30 Sep 2009		●
Professional Standards Council	●		✓	13 Oct 2009		●
Senior Master of the Supreme Court		S	✓	11 Sep 2009	N/A	N/A
Sentencing Advisory Council	●		✓	18 Sep 2009	●	
Victorian Electoral Commission	●		✓	12 Aug 2009	●	
Victorian Equal Opportunity and Human Rights Commission	●		✓	22 Sep 2009	●	
Victorian Institute of Forensic Medicine	●		✓	15 Sep 2009	●	
Victorian Law Reform Commission	●		✓	1 Oct 2009		●
Victoria Legal Aid	●		✓	21 Aug 2009	●	
Consumer Affairs						
Residential Tenancies Bond Authority	●		✓	24 Sep 2009		●
Gaming						
Victorian Commission for Gambling Regulation	●		✓	25 Aug 2009	●	

Figure 9A
Audit status—Justice portfolio – *continued*

	Reporting framework		Financial reports		Finalised within statutory time frame	
Entity	**FMA**	**Non-FMA**	**Clear opinion issued**	**Auditor-General's report signed**	**Met**	**Not met**
Completed audits with 30 June 2009 balance dates – *continued*						
Police and emergency services						
Country Fire Authority	●		✓	12 Aug 2009	●	
Emergency Services Telecommunications Authority	●		✓	15 Sep 2009	●	
Metropolitan Fire and Emergency Services Board	●		✓	13 Aug 2009	●	
Office of Police Integrity	●		✓	4 Sep 2009	●	
Victoria Police	●		✓	25 Aug 2009	●	
Victoria State Emergency Service Authority	●		✓	17 Sep 2009	●	
Racing						
Greyhound Racing Victoria	●		✓	11 Sep 2009	●	
Harness Racing Victoria	●		✓	17 Sep 2009	●	
HRV Management Limited		C	✓	17 Sep 2009	●	
Melton Entertainment Trust	●		✓	17 Sep 2009	●	
2008–09 Total number of entities = 27	**25**	**2**			**20**	**6**
				Per cent	**77**	**23**
2007–08 Total number of entities = 27	25	2			24	1
				Per cent	96	4

Source: Victorian Auditor-General's Office.

- ● Yes
- C *Corporations Act 2001*
- S *Supreme Court Act 1986*
- ✓ Clear opinion
- ✗ Qualified opinion
- ▲ Emphasis of matter

10 Planning and Community Development

At a glance

Portfolio overview

The Planning and Community Development portfolio is comprised of 17 entities, including two material entities; the Department of Planning and Community Development (DPCD) and the Victorian Urban Development Authority.

The results of the financial statement audits of 17 entities, comprising the Department of Planning and Community Development and associated entities are included in this report. The results of 79 local councils, 12 associated entities and 12 regional libraries have been included in a separate report, *Local Government*: *Results of the 2008–09 Audits,* tabled in Parliament on 11 November 2009.

The portfolio leads and supports the development of liveable communities.

The portfolio is responsible for Victoria's built environment, including land-use planning and urban growth, and building strong communities that are well planned and well designed.

Findings

- Clear audit opinions were issued on all financial reports for entities with 30 June 2009 balance dates in this portfolio. A clear audit opinion was also issued for the Melbourne Cricket Ground Trust, which has a 30 September balance date.
- The timeliness of financial reporting by the 16 entities under the *Financial Management Act 1994* improved, with 75 per cent of entities achieving the 12-week time frame, up from 60 per cent in 2007–08.
- The Victorian Institute of Sport Limited, reporting under the *Corporations Act 2001*, met its statutory time line in 2008–09, the same as last year.

10.1 Introduction

The portfolio leads and supports the development of liveable communities.

10.1.1 Portfolio outputs

The output structure for the 2008–09 financial year is as follows:

- **Planning for liveable communities**—Manage growth and facilitate land supply; support the development of diverse and affordable housing; protect and manage Victoria's cultural and natural heritage; streamline regulations and systems; and integrate urban development and community planning.
- **People in liveable communities**—Invest in and provide accessible, targeted support to specific population groups and priority places; increase inclusion and access for our diverse communities; and increase adult education, skills development and workforce participation opportunities.
- **Participation in liveable communities**—Increase sport and recreation, civic, cultural and voluntary participation opportunities; improve opportunities and capacity for people and communities to have a say in decisions and directions that affect their lives; and support and develop strong and sustainable community networks, organisations and local governance.

For the financial year the portfolio recognised $883.1 million revenue and $890.8 million expenditure. At 30 June the portfolio had $1 906.6 million net assets.

10.1.2 Portfolio composition

The Planning and Community Development portfolio comprises the Department of Planning and Community Development (DPCD), 15 entities with 30 June 2009 balance dates and one with a 31 March 2009 balance date. The results of the financial statement audits of these 17 entities are included in this report.

At 30 June 2009, the portfolio supported and advised 12 ministerial portfolios:

- Aboriginal affairs
- community development
- community services (Office for Disability)
- local government
- multicultural affairs
- planning
- senior Victorians
- skills and workforce participation (adult and community further education)
- sport and recreation
- veterans' affairs
- women's affairs
- youth affairs.

Local Government Victoria is a major division of this portfolio and supports Victoria's local councils, associated entities and regional library corporations. Given the size and diversity of the local government sector, the results of the 79 local councils, 12 associated entities and 12 regional libraries have been included in a separate report, *Local Government: Results of the 2008–09 Audits,* tabled in Parliament on 11 November 2009.

There were no changes to the entities within this portfolio from 2007–08.

10.1.3 Ministers

The ministers for the portfolio are:

- Premier of Victoria, Minister for Veterans' Affairs and Minister for Multicultural Affairs, The Hon. John Brumby MP
- Minister for Planning, The Hon. Justin Madden MLC
- Minister for Skills and Workforce Participation, The Hon. Jacinta Allan MP
- Minister for Community Development, The Hon. Peter Bachelor MP
- Minister for Women's Affairs and Minister for Children and Early Childhood Development, The Hon. Maxine Morand MP
- Minister Assisting the Premier on Veterans' Affairs, The Hon. Tony Robinson MP
- Minister for Local Government and Minister for Aboriginal Affairs, The Hon. Richard Wynne MP
- Minister for Senior Victorians and Minister for Community Services, The Hon. Lisa Neville MP
- Minister for Sport, Recreation and Youth Affairs and Minister Assisting the Premier on Multicultural Affairs, The Hon. James Merlino MP.

10.1.4 Reporting framework

Sixteen of the seventeen entities in the Planning and Community Development portfolio are required by the *Financial Management Act 1994* (FMA) to prepare a financial report and have the report audited by the Auditor-General. The Victorian Institute of Sport Limited prepares its financial report in accordance with the *Corporations Act 2001*.

10.2 Results of audits

Clear audit opinions were issued on all financial reports for entities with 30 June 2009 balance dates in this portfolio. A clear audit opinion was also issued for the Melbourne Cricket Ground Trust which has a 30 September balance date.

The timeliness of financial reporting by the 16 entities under the *Financial Management Act 1994* improved, with 75 per cent of entities achieving the 12-week time frame, up from 60 per cent in 2007–08.

The Victorian Institute of Sport Limited, reporting under the *Corporations Act 2001,* met its statutory time line in 2008–09, the same as last year.

Figure 10A
Audit status—Planning and Community Development

Entity	Audit type		Financial reports		Finalised within statutory time frame	
	FMA	Non-FMA	Clear opinion issued	Auditor-General's report signed	Met	Not met
Completed audits with 30 June 2009 balance dates						
Department of Planning and Community Development	●		✓	28 Aug 2009	●	
Planning						
Architects' Registration Board of Victoria	●		✓	21 Sep 2009	●	
Building Commission	●		✓	16 Sep 2009	●	
Growth Areas Authority	●		✓	18 Sep 2009	●	
Heritage Council	●		✓	30 Sep 2009		●
Plumbing Industry Commission	●		✓	16 Sep 2009	●	
Victorian Urban Development Authority	●		✓	13 Aug 2009	●	
Sport, recreation and youth affairs						
Melbourne and Olympic Parks Trust	●		✓	2 Sep 2009	●	
State Sport Centres Trust	●		✓	30 Sep 2009		●
Victorian Institute of Sport Limited		C	✓	28 Sep 2009	●	
Victorian Institute of Sport Trust	●		✓	28 Sep 2009		●
Skills and workforce participation						
Adult, Community and Further Education Board	●		✓	17 Sep 2009	●	
Multicultural affairs						
VITS Languagelink	●		✓	6 Oct 2009		●
Women's affairs						
Queen Victoria Women's Centre Trust	●		✓	21 Sep 2009	●	
Veterans' affairs						
Shrine of Remembrance Trustees	●		✓	22 Sep 2009	●	
Victorian Veteran's Council	●		✓	22 Sep 2009	●	

Figure 10A
Audit status—Planning and Community Development – *continued*

	Audit type		Financial reports		Finalised within statutory time frame	
Entity	**FMA**	**Non-FMA**	**Clear opinion issued**	**Auditor-General's report signed**	**Met**	**Not met**
Completed audits with other balance dates						
Melbourne Cricket Ground Trust	●		✓	23 June 2009	●	
2008–09 Total number of entities = 17	**16**	**1**			**13**	**4**
				Per cent	**76**	**24**
2007–08 Total number of entities = 17	16	1			11	6
				Per cent	65	35

Source: Victorian Auditor-General's Office.

● Yes
C *Corporations Act 2001*
✓ Clear opinion
✗ Qualified opinion
▲ Emphasis of matter

11 Premier and Cabinet

At a glance

Portfolio overview

The Premier and Cabinet portfolio is comprised of 11 entities, including two material entities; the Department of Premier and Cabinet (DPC) and the Council of Trustees of the National Gallery of Victoria.

The portfolio provides exemplary leadership and innovation in the development of policy and delivery of services to ensure the best possible outcomes for all Victorians.

The portfolio is responsible for providing support to the Premier as head of Government and Cabinet, providing strategic policy leadership, developing whole-of-government initiatives, and delivering services and programs in relation to Arts Victoria.

Findings

- Clear audit opinions were issued on all financial reports for entities with 30 June 2009 balance dates in this portfolio.
- The timeliness of financial reporting by the 10 entities under the *Financial Management Act 1994* declined, with 80 per cent of entities achieving the 12-week time frame, down from 100 per cent in 2007–08.
- The Melbourne Recital Centre Limited, reporting under the *Corporations Act 2001,* met its statutory time line in 2008–09, the same as last year.

11.1 Introduction

The portfolio provides exemplary leadership and innovation in the development of policy and delivery of services to ensure the best possible outcomes for all Victorians.

11.1.1 Portfolio outputs

The output structure for the 2008–09 financial year is as follows:

- **Strategic Policy and Advice**—provides advice to the Premier and Cabinet on all aspects of policy, including the government's medium-term strategic directions.
- **Public Sector Management, Governance and Support Outputs**—provides independent services that aim to ensure the effective management, governance and support of the public sector.
- **Arts and Cultural Development Outputs**—contribute to the development of the Victorian arts and cultural sector through the provision of industry assistance programs, infrastructure development and policy advice.

For the financial year the portfolio recognised $979 million revenue and $974.1 million expenditure. At 30 June the portfolio had $6 009.5 million net assets.

11.1.2 Portfolio composition

The Premier and Cabinet portfolio comprises the Department of Premier and Cabinet (DPC) and 10 entities with 30 June 2009 balance dates.

At 30 June, this portfolio supports and advises two ministerial portfolios:

- the Premier
- the arts.

There were no changes to the entities within this portfolio from 2007–08.

11.1.3 Ministers

The ministers for the portfolio are:

- Premier, The Hon. John Brumby MP
- Minister for the Arts, The Hon. Lynne Kosky MP.

11.1.4 Reporting framework

Ten of the eleven entities in the Premier and Cabinet portfolio are required by the *Financial Management Act 1994 (*FMA) to prepare a financial report and have the reported audited by the Auditor-General. The Melbourne Recital Centre Limited prepares its financial report in accordance with the *Corporations Act 2001*.

11.2 Results of audits

Clear audit opinions were issued on all financial reports for entities with 30 June 2009 balance dates in this portfolio.

The timeliness of financial reporting by the 10 entities under the *Financial Management Act 1994* declined, with 80 per cent of entities achieving the 12-week time frame, down from 100 per cent in 2007–08.

The Melbourne Recital Centre Limited, reporting under the *Corporations Act 2001,* met its statutory time line in 2008–09, the same as last year.

Figure 11A
Audit status—Premier and Cabinet

	Audit type		Financial reports		Finalised within statutory time frame	
Entity	**FMA**	**Non-FMA**	**Clear opinion issued**	**Auditor-General's report signed**	**Met**	**Not met**
Completed audits with 30 June 2009 balance dates						
Department of Premier and Cabinet	●		✓	19 Aug 2009	●	
Arts						
Australian Centre for the Moving Image	●		✓	11 Sep 2009	●	
Council of Trustees of the National Gallery of Victoria	●		✓	2 Sep 2009	●	
Geelong Performing Arts Centre Trust	●		✓	22 Sep 2009	●	
Library Board of Victoria	●		✓	23 Sep 2009		●
Melbourne Recital Centre Ltd		C	✓	27 Oct 2009	●	
Museums Board of Victoria	●		✓	15 Sep 2009	●	
State Library of Victoria Foundation	●		✓	23 Sep 2009		●
Victorian Arts Centre Trust	●		✓	22 Sep 2009	●	
Other						
Office of the Ombudsman	●		✓	3 Sep 2009	●	
State Services Authority	●		✓	3 Sep 2009	●	
2008–09 Total number of entities = 11	**10**	**1**			**9**	**2**
				Per cent	**82**	**18**
2007–08 Total number of entities = 11	10	1			11	0
				Per cent	100	0

Source: Victorian Auditor-General's Office.

● Yes
C *Corporations Act 2001*
✓ Clear opinion
✗ Qualified opinion
▲ Emphasis of matter

12 Primary Industries

At a glance

Portfolio overview

The Primary Industries portfolio is comprised of 13 entities, including two material entities; the Department of Primary Industries (DPI) and Victorian Energy Networks Corporation.

The portfolio is responsible for designing and delivering government policies and programs that enable Victoria's primary and energy industries to sustainably maximise the wealth and wellbeing they generate.

Findings

- Clear audit opinions were issued on all financial reports for entities with 30 June 2009 balance dates in this portfolio.
- The timeliness of financial reporting by the 11 entities under the *Financial Management Act 1994* improved, with 100 per cent of entities achieving the 12-week time frame, up from 92 per cent in 2007–08.
- Agriculture Victoria Services Pty Ltd and Phytogene Pty Ltd, reporting under the *Corporations Act 2001* met their statutory time line in 2008–09, the same as last year.

12.1 Introduction

The portfolio designs and delivers government policies and programs that enable primary and energy industries to maximise the wealth and wellbeing they generate in the areas of agriculture, fisheries, earth resources, energy and forests in Victoria.

12.1.1 Portfolio outputs

The output structure for the 2008–09 financial year is as follows:

- **Primary Industries Policy**—develop policy frameworks and legislative reforms to improve investment in and protection of energy, resources and primary industries.
- **Regulation and Compliance**—regulation of natural resource use to protect the sustainability of Victoria's primary and energy industries.
- **Strategic and Applied Scientific Research**—use of science and innovation via research and development, to increase productivity, profitability, sustainability, international competitiveness and export value of primary and energy industries.
- **Sustainable Practice Change**—facilitate the adoption of new ideas and practices and assist industries and communicates to understand, manage and adapt to change by economic, social and environmental pressures and promote trade by enhancing access to markets and securing market opportunities for Victoria.

For the financial year the portfolio recognised $56.76 million revenue and $634.6 million expenditure. At 30 June the portfolio had $386.1 million net assets.

12.1.2 Portfolio composition

The Primary Industries portfolio comprises the Department of Primary Industries (DPI) and 12 entities with 30 June 2009 balance dates.

At 30 June 2009, the portfolio supported and advised two ministerial portfolios:

- agriculture
- energy and resources.

The changes to the entities within this portfolio from 2007–08 are:

- Melbourne Market Authority was transferred from DPI to DIIRD in 2008–09
- Subsequent to 30 June 2009, Victorian Energy Networks Corporation, trading as VENCorp ceased operation on 1 July 2009. All functions, assets and liabilities were assumed by the Australian Energy Market Operator Ltd from this date.

12.1.3 Ministers

The ministers for the portfolio are:

- Minister for Agriculture, The Hon. Joe Helper MLA
- Minister for Energy and Resources, The Hon. Peter Batchelor MLA.

12.1.4 Reporting framework

Eleven of the thirteen entities in the Primary Industries portfolio are required by the *Financial Management Act 1994* (FMA) to prepare financial reports and have these audited by the Auditor-General. Agriculture Victoria Services Pty Ltd and Phytogene Pty Ltd prepare their financial reports in accordance with the *Corporations Act 2001*.

12.2 Results of audits

Clear audit opinions were issued on all financial reports for entities with 30 June 2009 balance dates in this portfolio.

The timeliness of financial reporting by the 11 entities under the *Financial Management Act 1994* improved, with 100 per cent of entities achieving the 12-week time frame, up from 92 per cent in 2007–08.

Agriculture Victoria Services Pty Ltd and Phytogene Pty Ltd, reporting under the *Corporations Act 2001,* met their statutory time line in 2008–09, the same as last year.

Figure 12A
Audit status—Primary Industries portfolio

Entity	Reporting framework		Financial reports		Finalised within statutory time frame	
	FMA	Non-FMA	Clear opinion issued	Auditor-General's report signed	Met	Not met
Completed audits with 30 June 2009 balance dates						
Department of Primary Industries	●		✓	31 Aug 2009	●	
Agriculture						
Agriculture Victoria Services Pty Ltd		C	✓	2 Sep 2009	●	
Phytogene Pty Ltd		C	✓	8 Sep 2009	●	
Dairy Food Safety Victoria	●		✓	3 Sep 2009	●	
Murray Valley Citrus Board	●		✓	22 Sep 2009	●	
Murray Valley Wine Grape Industry Development Committee	●		✓	18 Sep 2009	●	
Northern Victorian Fresh Tomato Industry Development Committee	●		✓	11 Sep 2009	●	
Primesafe	●		✓	3 Sep 2009	●	
Veterinary Practitioners Registration Board of Victoria	●		✓	22 Sep 2009	●	
Victorian Strawberry Industry Development Committee	●		✓	28 Aug 2009	●	
Energy and resource						
Energy Safe Victoria	●		✓	4 Sep 2009	●	
Network Tariff Rebate Trust Fund	●		✓	17 Jul 2009	●	
Victorian Energy Networks Corporation [(a)]	●		✓	8 Sep 2009	●	
2008–09 Total number of entities = 13	**11**	**2**			**13**	**0**
				Per cent	**100**	**0**
2007–08 Total number of entities = 14	12	2			13	1
				Per cent	93	7

(a) VENCorp ceased operation on 1 July 2009. All functions, assets and liabilities were assumed by the Australian Energy Market Operator Ltd from this date.

● Yes
C *Corporations Act 2001*
✓ Clear opinion
✗ Qualified opinion
▲ Emphasis of matter

13 Sustainability and Environment

At a glance

Portfolio overview

The Sustainability and Environment portfolio is comprised of 57 entities, including two material entities; the Department of Sustainability and Environment (DSE) and Parks Victoria. DSE and climate change entities are included in this report.

The results of the financial statement audits of 19 water bodies and related subsidiaries have been included in a separate report—*Water Entities: Results of the 2008–09 Audits* tabled in Parliament on 25 November 2009.

The portfolio is committed to a future in which all Victorians are living sustainably and in harmony with the natural environment.

The portfolio is responsible for promoting and managing the sustainability of the natural environment.

Findings

- Clear audit opinions were issued on the financial reports for all of the entities with 30 June 2009 balance dates included in this portfolio chapter, one of which included an emphasis of matter, drawing attention to the uncertainty about its continuation as a going concern.
- The timeliness of financial reporting for entities in this portfolio is consistent with the prior year with 79 per cent of entities achieving the 12-week time frame required under the *Financial Management Act 1994*.

13.1 Introduction

The portfolio is committed to a future in which all Victorians are living sustainably and in harmony with the natural environment.

13.1.1 Portfolio outputs

The output structure for the 2008–09 financial year is as follows:

- **Healthy and Productive Water Systems**—effectively manage Victoria's water resources and its quality. Continued attention to salinity, the health of rivers and estuaries, reliable water supply for growing urban populations and agricultural sectors, and water quality pricing.
- **Healthy and Productive Land; Healthy, Productive and Accessible Marine, Coastal and Estuarine Systems; and Flourishing Biodiversity in Healthy Ecosystems**—contribute to the facilitation of commercial and recreational activities, and maintain an ecologically healthy and sustainable terrestrial and coastal environment.
- **Less Waste, Less Pollution; and Clean Air, Liveable Climate**—manage and continued attention to greenhouse issues, air quality, pollution and waste management.
- **Land Administration and Property Information**—management of systems and information services that ensure confidence in security and ownership, property boundaries and valuation for land transactions.

For the financial year the portfolio recognised $2 439.5 million revenue and $2 327.7 million expenditure. At 30 June the portfolio had $11 482.6 million net assets.

13.1.2 Portfolio composition

The results of the financial statement audits of 19 water bodies and related subsidiaries have been included in a separate report—*Water Entities: Results of the 2008–09 Audits* tabled in Parliament on 25 November 2009.

At 30 June 2009, this portfolio supported and advised two ministerial portfolios:

- water
- environment and climate change.

First Mildura Irrigation Trust (FMIT) was dissolved on 19 August 2008. Under the section 87(1) of the *Water Act 1989*, the Lower Murray Urban and Rural Water Corporation (LMW) was appointed to take over the functions, powers and duties of the FMIT due to the FMIT's:

- non-compliance with financial and governance responsibilities and
- not to be considered viable in the long term as a separate entity.

13.1.3 Ministers

The ministers for the portfolio are:

- Minister for Water, The Hon. Tim Holding MP
- Minister for Environment and Climate Change, The Hon. Gavin Jennings MP.

13.1.4 Reporting framework

The 38 entities included in this portfolio chapter are required by the *Financial Management Act 1994* (FMA) to prepare financial reports and have these audited by the Auditor-General.

13.2 Results of audits

Clear audit opinions were issued on the financial reports for all of the entities with 30 June 2009 balance dates included in this portfolio chapter.

The timeliness of financial reporting for entities in this portfolio is consistent with the prior year with 79 per cent of entities achieving the 12-week time frame required under the *Financial Management Act 1994*.

The financial report for Yarra Bend Park Trust included an emphasis of matter, drawing attention to the uncertainty about its continuation as a going concern.

A management arrangements review commissioned by the Department of Sustainability and Environment has recommended that the management of Yarra Bend Park be transferred from Yarra Bend Park Trust to Parks Victoria. Enactment of this recommendation requires the *Kew and Heidelberg Lands Act 1933* to be repealed.

At the date of this report, the required changes to the legislation have not been completed. As a result, there is a material uncertainty about whether the trust will continue as a going concern.

Figure 13A
Audit status—Sustainability and Environment portfolio

	Reporting framework		Financial reports		Finalised within statutory time frame	
Entity	**FMA**	**Non-FMA**	**Clear opinion issued**	**Auditor-General's report signed**	**Met**	**Not met**
Completed audits with 30 June 2009 balance dates						
Environment and climate change						
Alpine Resorts Co-ordinating Council	●		✓	12 Aug 2009	●	
Barwon Regional Waste Management Group	●		✓	21 Sep 2009	●	
Calder Regional Waste Management Group	●		✓	22 Sep 2009	●	
Central Murray Regional Waste Management Group	●		✓	28 Aug 2009	●	
Commissioner for Environmental Sustainability	●		✓	18 Sep 2009	●	
Corangamite Catchment Management Authority	●		✓	25 Sep 2009		●
Department of Sustainability and Environment	●		✓	7 Sep 2009	●	
Desert Fringe Regional Waste Management Group	●		✓	9 Sep 2009	●	
East Gippsland Catchment Management Authority	●		✓	17 Sep 2009	●	
Environment Protection Authority	●		✓	22 Sep 2009	●	
First Mildura Irrigation Trust [(a)]	●		✓	13 Jan 2009	N/A	N/A
Gippsland Regional Waste Management Group	●		✓	2 Oct 2009		●
Glenelg Hopkins Catchment Management Authority	●		✓	28 Aug 2009	●	
Goulburn Broken Catchment Management Authority	●		✓	17 Sep 2009	●	
Goulburn Valley Regional Waste Management Group	●		✓	2 Oct 2009		●
Grampians Regional Waste Management Group	●		✓	14 Sep 2009	●	
Highlands Regional Waste Management Group	●		✓	14 Sep 2009	●	
Mallee Catchment Management Authority	●		✓	10 Sep 2009	●	

(a) Dissolved on 19 August 2008. The last financial report of this entity covered the period 1 July 2007 to 19 August 2008.

Figure 13A
Audit status—Sustainability and Environment portfolio – *continued*

	Reporting framework		Financial reports		Finalised within statutory time frame	
Entity	**FMA**	**Non-FMA**	**Clear opinion issued**	**Auditor-General's report signed**	**Met**	**Not met**
Completed audits with 30 June 2009 balance dates – *continued*						
Environment and climate change – *continued*						
Metropolitan Waste Management Group	●		✓	2 Oct 2009		●
Mildura Regional Waste Management Group	●		✓	21 Sep 2009	●	
Mornington Peninsula Regional Waste Management Group	●		✓	2 Oct 2009		●
North Central Catchment Management Authority	●		✓	11 Sep 2009	●	
North East Catchment Management Authority	●		✓	17 Sep 2009	●	
North East Victorian Regional Waste Management Group	●		✓	11 Sep 2009	●	
Parks Victoria	●		✓	26 Aug 2009	●	
Phillip Island Nature Park Board of Management	●		✓	29 Sep 2009		●
Port Phillip & Westernport Catchment Management Authority	●		✓	22 Sep 2009	●	
Royal Botanic Gardens Board	●		✓	22 Sep 2009	●	
Smart Water Fund	●		✓	11 Sep 2009	●	
South Western Regional Waste Management Group	●		✓	8 Sep 2009	●	
State Owned Enterprise for Irrigation Modernisation in Northern Victoria	●		✓	17 Sep 2009	●	
Surveyor's Registration Board of Victoria	●		✓	22 Sep 2009	●	
Sustainability Victoria	●		✓	21 Sep 2009	●	
Trust for Nature (Victoria)	●		✓	28 Oct 2009		●
West Gippsland Catchment Management Authority	●		✓	17 Sep 2009	●	
Wimmera Catchment Management Authority	●		✓	2 Sep 2009	●	
Yarra Bend Park Trust	●		▲	2 Oct 2009		●
Zoological Parks and Gardens Board	●		✓	7 Sep 2009	●	

Figure 13A
Audit status—Sustainability and Environment portfolio – *continued*

	Reporting framework		Financial reports		Finalised within statutory time frame	
Entity	**FMA**	**Non-FMA**	**Clear opinion issued**	**Auditor-General's report signed**	**Met**	**Not met**
2008–09 Total number of entities = 38	**38**				**29**	**8**
				Per cent	**79**	**21**
2007–08 Total number of entities = 38	38				30	8
				Per cent	79	21

Source: Victorian Auditor-General's Office.

- ● Yes
- ✓ Clear opinion
- ✗ Qualified opinion
- ▲ Emphasis of matter

14 Transport

At a glance

Portfolio overview

The Transport portfolio is comprised of 16 entities, including five material entities; the Department of Transport (DOT), Port of Melbourne Corporation, Roads Corporation, Victorian Rail Track and the V/Line Passenger Corporation.

The portfolio is responsible for public transport, road and rail transport infrastructure and services, and ports and marine facilities and services.

Findings

- Clear audit opinions were issued on all financial reports for entities with 30 June 2009 balance dates in this portfolio.
- The timeliness of financial reporting by the 10 entities under the *Financial Management Act 1994* was the same as last year, with 90 per cent of entities achieving the 12-week time frame.
- In 2008–09, the six entities that report under the *Corporations Act 2001* met their statutory time line, the same as last year.

14.1 Introduction

The portfolio is responsible for Victoria's public transport, road and rail transport infrastructure and services and ports and marine facilities and services.

14.1.1 Portfolio outputs

The output structure for the 2008-09 financial year is as follows:

- **Public Safety and Security**—the portfolio contributes to the achievement of the key government outcome of building friendly, confident and safe communities, by delivering initiatives and regulatory activities that improve safety in the public transport, road and marine sectors and reduce the frequency, severity and cost of accidents and incidents. It also covers activities aimed at maintaining the security of critical infrastructure and the preparedness to respond to emergencies involving this infrastructure.
- **Public Transport Services**—the portfolio contributes to the achievement of the following key government outcomes: growing and linking all of Victoria; protecting the environment for future generations; and sound financial management. This is done by overseeing the delivery of quality, sustainable and cost effective passenger train, tram and bus services to metropolitan Melbourne and rural and regional Victoria, in partnership with operators and in accordance with contractual arrangements.
- **Infrastructure Planning, Delivery and Management**—contribute to the achievement of the following key government outcomes: growing and linking all of Victoria; sound financial management; more quality jobs and thriving, innovative industries across Victoria; and greater public participation and more accountable government.

For the financial year the portfolio recognised $8 312.5 million revenue and $8 162.9 million expenditure. At 30 June the portfolio had $32 168.2 million net assets.

14.1.2 Portfolio composition

The Transport portfolio comprises the Department of Transport (DOT) and 15 entities with 30 June 2009 balance dates.

At 30 June 2009, the portfolio supported and advised two ministerial portfolios:

- public transport
- roads and ports.

Subsequent to 30 June 2009, the Southern Cross Station Authority dissolved, effective 31 July 2009. The Southern Cross Station Authority was created to oversee the redevelopment of the former Spencer Street Station and the operation of the new Southern Cross Station, by a private operator. With the redevelopment now complete the role of overseeing the operation of the station has transferred to the Department of Transport.

14.1.3 Ministers

The ministers for the portfolio are:

- Minister for Public Transport, The Hon. Lynne Kosky MP
- Minister for Roads and Ports, The Hon. Tim Pallas MP.

14.1.4 Reporting Framework

Ten of the sixteen entities in the Transport portfolio are required by the *Financial Management Act 1994* (FMA) to prepare financial reports and have these audited by the Auditor-General. The remaining six entities prepare their financial reports in accordance with the *Corporations Act 2001*.

14.2 Results of audits

Clear audit opinions were issued on all financial reports for entities with 30 June 2009 balance dates in this portfolio.

The timeliness of financial reporting by the 10 entities under the *Financial Management Act 1994* was the same as last year, with 90 per cent of entities achieving the 12-week time frame.

In 2008–09, the six entities that report under the *Corporations Act 2001* met their statutory time line, the same as last year.

Figure 14A
Audit status—Transport portfolio

	Reporting framework		Financial reports		Finalised within statutory time frame	
Entity	**FMA**	**Non-FMA**	**Clear opinion issued**	**Auditor-General's report signed**	**Met**	**Not met**
Completed audits with 30 June 2009 balance dates						
Department of Transport	●		✓	17 Aug 2009	●	
Public transport						
Public Transport Ticketing Body	●		✓	17 Sep 2009	●	
Southern Cross Station Authority [(a)]	●		✓	13 Oct 2009	●	
Victorian Rail Track	●		✓	17 Aug 2009	●	
Rolling Stock Holdings (Victoria) Pty Ltd		C	✓	17 Aug 2009	●	
Rolling Stock Holdings (Victoria – VL) Pty Ltd		C	✓	17 Aug 2009	●	
Rolling Stock (VL – 1) Pty Ltd		C	✓	17 Aug 2009	●	
Rolling Stock (VL – 2) Pty Ltd		C	✓	17 Aug 2009	●	
Rolling Stock (VL – 3) Pty Ltd		C	✓	17 Aug 2009	●	
V/Line Passenger Corporation	●		✓	19 Aug 2009	●	
V/Line Passenger Pty Ltd		C	✓	19 Aug 2009	●	
Roads and ports						
Port of Melbourne Corporation	●		✓	3 Aug 2009	●	
Port of Hastings Corporation	●		✓	24 Sep 2009		●
Roads Corporation	●		✓	19 Aug 2009	●	
Southern and Eastern Integrated Transport Authority	●		✓	21 Aug 2009	●	
Victorian Regional Channels Authority	●		✓	14 Sep 2009	●	

Figure 14A
Audit status—Transport portfolio – *continued*

	Reporting framework		Financial reports		Finalised within statutory time frame	
Entity	FMA	Non-FMA	Clear opinion issued	Auditor-General's report signed	Met	Not met
2008–09 Total number of entities = 16	**10**	**6**			**14**	**2**
				Per cent	**88**	**12**
2007–08 Total number of entities = 16	10	6			15	1
				Per cent	94	6

(a) The audit of the Southern Cross Station Authority was for a 13-month period and they received an exemption from the minister to prepare 12-month statements. Therefore, their statutory time frame has been assessed as met.

Source: Victorian Auditor-General's Office.

- ● Yes
- C *Corporations Act 2001*
- ✓ Clear opinion
- ✗ Qualified opinion
- ▲ Emphasis of matter

15 Treasury and Finance

At a glance

Portfolio overview

The Treasury and Finance portfolio is comprised of 32 entities, including nine material entities; the Department of Treasury and Finance (DTF), Emergency Services Superannuation Board, Rural Finance Corporation of Victoria, State Electricity Commission of Victoria, State Trustees Limited, Transport Accident Commission, Treasury Corporation of Victoria, Victorian Managed Insurance Authority and the Victorian WorkCover Authority.

The portfolio provides policy advice to the Victorian Government on economic, financial and resource management, supporting the delivery of its financially responsible and socially progressive policy platform. It also formulates and implements the government's longer-term economic and budgetary objectives, which are to achieve economic growth for all regions of the state and increase the living standards of all Victorians.

DTF is responsible for the financial reporting for the State Revenue Office (SRO). The SRO administers a range of taxes and the collection of these taxes raises significant revenue which is included in the DTF financial statements.

Findings

- Clear audit opinions were issued on all financial reports for entities with 30 June 2009 balance dates in this portfolio, one of which included an emphasis of matter, drawing attention to the uncertainty about whether the winding up of the fund will be completed within 2009–10.
- The timeliness of reporting for entities under the *Financial Management Act 1994* improved, with 95 per cent of entities achieving the 12-week time frame, up from 84 per cent in 2007–08.
- The seven entities reporting under the *Corporations Act 2001* and the six entities reporting under their *Trust Constitution* finalised their reporting obligations within the statutory time frame.

15.1 Introduction

The portfolio provides policy advice to the Victorian Government on economic, financial and resource management, supporting the delivery of its financially responsible and socially progressive policy platform. This contributes to the *Growing Victoria Together*[1] goal of sound financial management.

The portfolio also formulates and implements the government's longer-term economic and budgetary objectives, which are to achieve economic growth for all regions of the state and increase the living standards of all Victorians.

15.1.1 Portfolio outputs

The output structure for the 2008–09 financial year is as follows:

- **Strategic Policy and Advice**—provides strategic advice to Ministers on all aspects of Government activity including the state's overall financial and aggregate budget strategy; taxation policy and management of state based taxes; insurance schemes; accounting policies and performance management; economic, social and environmental monitoring and analysis; financial accounting and reporting; strategic research focusing on developing a greater understanding of factors that impact living standards for Victorians; and inter-government financial analysis and advice in relation to Commonwealth funding for states and territories.
- **Financial Management Services**—provides financial management services to government departments, agencies and government business enterprises, such as managing and forecasting cash balances and central government cash transactions; management of the liabilities for the public sector superannuation scheme; monitoring the performance of government business enterprises; providing financial risk management and advice to manage the state's financial risks; and reviewing and analysing performance of departments with a focus on delivering value for money services to the community.
- **Risk Management Services**—provides risk management advice, frameworks and information to Ministers, departments and private infrastructure partners to manage government's exposure to commercial and infrastructure project risks.
- **Regulatory Services**—regulates utilities and other regulated markets in Victoria and provide advice on ways the government can improve the business environment.
- **Revenue Management Services Output**—administers revenue collections of major taxes and duties on behalf of the government, and assess and process unclaimed monies.

[1] Growing Victoria Together is a ten-year vision that articulates what is important to Victorians and the priorities the Government has set to build society.

The DTF is also responsible for the financial reporting of operations for the State Revenue Office (SRO). The SRO administers Victoria's taxation legislation and collects a range of taxes, duties and levies. In 2008–09, the SRO collected almost $9 400 million in revenue. The financial results of the SRO are incorporated into the DTF financial report.

For the financial year the portfolio recognised $1 838.5 million revenue and $10 504.5 million expenditure. At 30 June the portfolio had negative $4 715.2 million net assets.

15.1.2 Portfolio composition

The Treasury and Finance portfolio comprises DTF and 31 entities with 30 June 2009 balance dates.

At 30 June 2009, the portfolio supported and advised two ministerial portfolios:

- treasury
- finance, WorkCover and the Transport Accident Commission.

The changes to the entities within this portfolio from 2007–08 are:

- STL Financial Services Premium Funds, which ceased operations in February 2009.
- State Trustees Limited Common Funds were disaggregated on 1 January 2009 and converted to inveST Funds, a separate reporting entity:
  - Fixed Interest Common Fund converted to inveST Diversified Income Fund
  - Property Common Fund converted to inveST Property Fund
  - Equity Common Fund converted to inveST Australian Equity Fund.
- Victorian Funds Management Corporation established the following entities to support investment activities:
  - VFMC Australian Share Trust commenced operations on 23 May 2008
  - VFMC Investments Pty Ltd commenced operations on 25 June 2008
  - VFMC Ontario Pty Ltd commenced operations on 5 August 2009
  - VFMC Finance Trust commenced operations on 30 July 2008.
- State Trustees Limited established the following entity to support investment activities:
  - inveST Funds, which commenced operations on 1 January 2009.
- CenITex was established on 1 July 2008 and commenced operations on 16 July 2008 as the product of a merger between the Department of Transport's Shared Services Centre and the Department of Treasury and Finance's Information and Technology Services Division. CenITex is a new information and communications technology (ICT) shared services agency, set up as a state body to centralise ICT support to government departments and agencies.

15.1.3 Ministers

The Ministers for the portfolio are:

- Premier of Victoria, The Hon. John Brumby MP
- Treasurer of Victoria, The Hon. John Lenders MP
- Minister for Finance, WorkCover and the Transport Accident Commission, The Hon. Tim Holding MP.

15.1.4 Reporting framework

Twenty of the thirty-two entities in the Treasury and Finance portfolio are required by the *Financial Management Act 1994* (FMA) to prepare a financial report and have the report audited by the Auditor-General. There are seven entities that prepare their financial reports in accordance with the *Corporations Act 2001,* and the remaining five prepare their financial reports in accordance with other reporting frameworks being:

- Trust Constitutions and Australian Accounting Standards
- Common Funds' Rules and Australian Accounting Standards.

15.2 Results of audits

Clear audit opinions were issued on all financial reports for entities with 30 June 2009 balance dates in this portfolio, one of which included an emphasis of matter, drawing attention to the uncertainty about whether the winding up of the fund will be completed within 2009–10.

The timeliness of reporting for entities under the *Financial Management Act 1994* improved, with 95 per cent of entities achieving the 12-week time frame, up from 84 per cent in 2007–08.

All of the entities reporting under the *Corporations Act 2001* and the *Trust Constitution* finalised their reporting obligations within the statutory time frame.

Figure 15A
Audits status—Treasury and Finance portfolio

Entity	Reporting framework		Financial reports		Finalised within statutory time frame	
	FMA	Non-FMA	Clear opinion issued	Auditor-General's report signed	Met	Not met
Completed audits with 30 June 2009 balance dates						
Department of Treasury and Finance	●		✓	22 Sep 2009	●	
Finance						
Emergency Services Superannuation Scheme	●		✓	27 Aug 2009	●	
Emergency Services Superannuation Board	●		✓	27 Aug 2009	●	
Essential Services Commission	●		✓	10 Sep 2009	●	
Housing Guarantee Claims Fund	●		✓	25 Aug 2009	●	
Industry Supervision Fund	●		▲	5 Oct 2009		●
Parliamentary Contributory Superannuation Fund	●		✓	18 Sep 2009	●	
Vicfleet Pty Ltd		C	✓	22 Oct 2009	●	
Treasurer						
CenITex	●		✓	4 Sep 2009	●	
Domestic Building Indemnity (HIH) Fund	●		✓	25 Aug 2009	●	
Rural Finance Corporation of Victoria	●		✓	13 Aug 2009	●	
State Electricity Commission of Victoria	●		✓	17 Sep 2009	●	
State Trustees Limited Common Funds comprising: • Cash Common Fund 1 • Cash Common Fund 2 • Charitable Common Fund		T	✓	25 Aug 2009	N/A	N/A
State Trustees Limited		C	✓	25 Aug 2009	●	
STL Financial Services Limited		C	✓	25 Aug 2009	●	
inveST Funds		C	✓	25 Aug 2009	●	
Treasury Corporation of Victoria	●		✓	17 Aug 2009	●	
VFM Equity Trusts comprising: • VFM Australian Equities Trust • VFM International Equities Trust • VFM Hedged International Equities Trust • VFM Global Small Companies Trust • VFM Emerging Markets Trust		T	✓	25 Sep 2009	N/A	N/A

Entity	Reporting framework		Financial reports		Finalised within statutory time frame	
	FMA	Non-FMA	Clear opinion issued	Auditor-General's report signed	Met	Not met
Completed audits with 30 June 2009 balance dates – *continued*						
Treasurer – *continued*						
VFMC Investment Trust I		**C**	✓	25 Sep 2009	●	
VFMC Investment Trust II		**C**	✓	25 Sep 2009	●	
VFMC Australian Share Trust		**C**	✓	25 Sep 2009	●	
VFMC Investments Pty Ltd		**T**		17 Nov 2009	N/A	N/A
VFMC Ontario Pty Ltd		**T**		17 Nov 2009	N/A	N/A
VFM Finance Trust		**T**	✓	25 Sep 2009	N/A	N/A
Victorian Funds Management Corporation	●		✓	4 Sep 2009	●	
VicForests	●		✓	21 Sep 2009	●	
Victorian Plantations Corporation	●		✓	22 Sep 2009	●	
Workcover and transport accident commission						
Accident Compensation Conciliation Service	●		✓	7 Sep 2009	●	
Transport Accident Commission	●		✓	1 Sep 2009	●	
Victorian Neurotrauma Initiative Pty Ltd	●			29 Sep 2009	●	
Victorian WorkCover Authority	●		✓	2 Sep 2009	●	
Victorian Managed Insurance Authority	●		✓	25 Aug 2009	●	
2008–09 Total number of entities = 32	**20**	**12**			**26**	**1**
		Per cent			96	4
2007–08 Total number of entities = 27	19	8			21	3
		Per cent			88	12

Source: Victorian Auditor-General's Office.

● Yes
C *Corporations Act 2001*
T Trust Constitution
✓ Clear opinion
✗ Qualified opinion
▲ Emphasis of matter

Appendix A. Acronyms and glossary

A.1 Acronyms

AFR	Annual Financial Report on the State of Victoria
APS	Australian Public Service
AASB	Australian Accounting Standards Board
CA	*Corporations Act 2001*
DEECD	Department of Education and Early Childhood Development
DHS	Department of Human Services
DIIRD	Department of Innovation, Industry and Regional Development
DOJ	Department of Justice
DOT	Department of Transport
DPC	Department of Premier and Cabinet
DPCD	Department of Planning and Community Development
DPI	Department of Primary Industries
DSE	Department of Sustainability and Environment
DTF	Department of Treasury and Finance
ESTA	Emergency Services Telecommunications Authority
FMA	*Financial Management Act 1994*
FMIT	First Mildura Irrigation Trust
FRD	Financial Reporting Direction
FTE	Full-time equivalent
G20	Group of Twenty
GAAP	Generally Accepted Accounting Principles
GFS	Government Finance Statistics

GPAC	Geelong Performing Arts Centre
GSP	Gross State Product
IASB	International Accounting Standards Board
ICT	Information and Communications Technology
IS	Information system
IT	Information Technology
LMW	Lower Murray Urban and Rural Water Corporation
MECC	Melbourne Convention and Exhibition Centre
MOU	Memorandum of Understanding
PAEC	Public Accounts and Estimates Committee
PSC	Victorian Professional Standards Council
RTBA	Residential Tenancy Bond Authority
SLA	Service Level Agreement
SRO	State Revenue Office
STL	State Trustees Limited
VACT	Victorian Arts Centre Trust
VAGO	Victorian Auditor-General's Office
VFMC	Victorian Funds Management Corporation
VPS	Victorian Public Sector
VTIO	Victoria Trade and Investment Office Pty Ltd

A.2 Glossary

Accountability

Responsibility on public sector entities to achieve their objectives, with regard to reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws, and reporting to interest parties.

Acquisition

Acquisition, in relation to assets, means establishing control over the asset, undertaking the risks, and receiving the rights to future benefits, as would be conferred with ownership, in exchange for a cost of acquisition.

Amortisation

The systematic allocation of the depreciable amount of an intangible asset over its expected useful life.

Asset

A resource controlled by an entity as a result of past events, and from which future economic benefits are expected to flow to the entity.

Auditor's opinion

Positive written expression within a specified framework indicating the auditor's overall conclusion on the financial report based on audit evidence obtained. A clear opinion indicates that the financial report has been prepared in accordance with the requirements of relevant legislation and Australian Accounting Standards.

Audit Act 1994

The *Audit Act 1994* establishes the operating powers and responsibilities of the Auditor-General. This includes the operations of his office—the Victorian Auditor-General's Office (VAGO) as well as the nature and scope of audits conducted by VAGO. The Act also addresses the relationship of the Auditor-General with the Public Accounts and Estimates Committee as the representative body of Parliament and the Auditor-General's accountability to Parliament for discharge of the position's responsibilities.

Capital expenditure

Amount capitalised to the balance sheet for contributions by a public sector entity to major assets owned by the entity, including expenditure on:

- capital renewal of existing assets that returns the service potential or the life of the asset to that which it had originally
- capital expansion which extends an existing asset at the same standard to a new group of users.

Contributions from the state

Transactions in which one public agency provides goods, services, assets (or extinguishes a liability) or labour to another public agency without receiving approximately equal value in return. Grants can either be of a current or capital nature.

Corporations Act 2001

The *Corporations Act 2001* is an act of the Commonwealth of Australia that sets out the laws dealing with business entities in Australia at federal and interstate levels. It focuses primarily on companies, although it also covers some laws relating to other entities such as partnerships and managed investment schemes.

Depreciation

The systematic allocation of the depreciable amount of an asset over its expected useful life.

Emphasis of matter

In certain circumstances, an auditor's report is modified by adding an emphasis of matter paragraph to highlight a matter affecting the financial report which is included in a note to the financial statements. The addition of such an emphasis of matter paragraph does not affect the auditor's opinion.

Entity

Is a body whether corporate or unincorporated that has a public function to exercise on behalf of the state or is wholly owned by the state, including departments, statutory authorities, statutory corporations and government business enterprises.

Expense

Outflows or other depletions of economic benefits in the form of incurrence of liabilities or depletion of assets of the entity, other than those relating to contributions by owners, that results in a decrease in equity during the reporting period.

Financial Management Act 1994

The *Financial Management Act 1994* was developed to improve financial administration and accountability and provide for annual reporting to the Parliament by all Victorian public sector agencies.

Financial sustainability

An entity's ability to manage financial resources so it can meet spending commitments, both at present and into the future.

Financial Reporting Direction

Financial reports are prepared in accordance with Australian Accounting Standards and Interpretations (AASs) as issued by the Australian Accounting Standards Board (AASB). Where a AASB standard provides accounting treatment options, the Department of Treasury and Finance issues Financial Reporting Directions (FRDs) to ensure consistent application of accounting treatment across the Victorian public sector in compliance with that particular standard.

Financial year

The period of 12 months from which a financial report is prepared ending on 30 June each year.

Internal control

A process affected by an entity's structure, work and authority flows, people and management information systems, designed to assist the entity accomplish specific goals and objectives. Internal control is a means by which an entity's resources are directed, monitored and measured. It plays an important role in preventing and detecting fraud and protecting the entity's resources.

Interment

The ritual of placing of a corpse in a grave.

Investment

The expenditure of funds intended to result in medium-to long-term service and/or financial benefits arising from the development and/or use of infrastructure or assets by either the public or private sectors.

Liability

A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

Masterfile

A database of entries containing data that does no often change (for example, address and bank account details).

Materiality

Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial report. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.

Material entity

Material entities represent those entities which are collectively deemed to have a significant effect on the transactions and balances reported in the state's annual report. The selection of these entities follows a detailed analysis of the financial operations of all controlled entities and takes into account any major risk factors that are attached to specific entities or portfolios.

Modified audit report

The types of modified audit reports and the basis for issuing these reports are as follows:

- A 'qualified opinion' is expressed when the auditor concludes that an unqualified opinion cannot be expressed due to a disagreement with management, a conflict between applicable financial reporting frameworks or a scope limitation; however, the effect is not so material and pervasive as to require an adverse opinion or a disclaimer of opinion. The qualified opinion is expressed as being 'except for' the effects of the matter to which the qualification relates.
- A 'disclaimer of opinion' is expressed when a limitation of scope of the auditor's work exists and the possible effect of the limitation on scope is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and accordingly is unable to express an opinion on the financial statements.
- An 'adverse opinion' is expressed when the effect of a disagreement with management or a conflict between applicable financial reporting frameworks is so material or pervasive to the financial statements that the auditor concludes that a qualification is not adequate to disclose the misleading or incomplete nature of the financial statements.
- An 'emphasis of matter' is expressed in certain circumstances to draw attention to, or emphasise, a matter that is included in the note to the financial statements that is relevant to the users of the auditor's report but is not of such nature that is affects the auditor's opinion (i.e. the auditor's opinion remains unmodified). The circumstances in which an emphasis of matter is used are specified and include:
  - when a significant uncertainty exists, the resolution of which depends upon future events and which may materially affect the financial statements
  - when information in a document containing the audited financial statements is materially inconsistent with the financial statements and
  - when financial statements and the auditor's report have been issued and a fact is discovered that leads to revised financial statements and a new auditor's report being prepared.

Other contributions

Transactions in which one non-government agency provides goods, services, assets (or extinguishes a liability) or labour to another non-government agency without receiving approximately equal value in return. Grants can either be of a current or capital nature.

Revenue

Inflows or other enhancements or savings in outflows of service potential, or future economic benefits in the form of increases in assets or reductions in liabilities of the entity, other than those relating to contributions by owners which results in an increase in equity during the reporting period.

Risk

The chance of a negative impact on the objectives, outputs or outcomes of the entity.

Sale of goods and services

Refers to revenue from the direct provision of goods and services and includes fees and charges for services rendered, sale of goods and services, fees from regulatory services, work done as an agent for private enterprises. It is also rental income under operating leases and on produced assets such as buildings and entertainment, but excludes rent income from the use of non-produced assets such as land. User charges includes sale of goods and services revenue.

Unprocessed leave

Leave requests submitted, but not yet processed against individual leave balances.

Unqualified audit report

An unqualified audit report is provided when the financial statements give a true and fair view of the matters required by the *Financial Management Act 1994,* including Australian Accounting Standards and Interpretations, so as to present a view which is consistent with the entity’s financial position, its financial performance and its cash flows.

Auditor-General's reports

Reports tabled during 2009–10

Report title	Date tabled
Local Government: Results of the 2008–09 Audits (2009–10:1)	November 2009
Public Hospitals: Results of the 2008–09 Audits (2009–10:2)	November 2009
Towards a 'smart grid'—*the roll-out of Advanced Metering Infrastructure* (2009–10:3)	November 2009
Responding to Mental Health Crises in the Community (2009–10:4)	November 2009
Management of the Community Support Fund (2009–10:5)	November 2009
Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2008–2009 (2009–10:6)	November 2009
Water: Results of the 2008–09 Audits (2009–10:7)	November 2009
Maintaining the Integrity and Confidentiality of Personal Data (2009–10:8)	November 2009
Vehicle Fleet Management (2009–10:9)	November 2009
Managing Offenders on Community Corrections Orders (2009–10:10)	November 2009

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