

Media Statement

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Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2006-07

A report by the **Auditor-General, Des Pearson**, titled *Auditor-General's Report on the Annual Financial Report of the State of Victoria, 2006-07* was tabled in the Victorian Parliament today.

The report sets out the results of the audit of the State of Victoria's Annual Financial Report for 2006-07 and provides commentary on the financial outcomes and position achieved by the State and the general government sector.

On 27 September 2007, Mr Pearson provided an unqualified audit opinion on the State's Financial Report for 2006-07, which was tabled in Parliament on 10 October 2007.

Mr Pearson confirmed a strong net financial result for the State and the general government sector for 2006-07, and indicated that the State's and the general government sector's financial position improved during 2006-07 and remains sound.

In 2006-07, the State achieved a net result of \$7 232 million, while the general government sector achieved an operating surplus of \$4 870 million in the year.

The report detailed the following major factors as contributing to the positive results:

- increased value of financial assets, reflecting the strong performance of financial and equity markets
- a reduction in the State's unfunded superannuation liabilities
- increased revenue from State taxation and Commonwealth grants resulting from strong Victorian and national economies.

In addition, Mr Pearson advised that during the 2006-07 financial year, the State's net assets grew by \$9.5 billion to \$86.1 billion, while the general government sector's net asset position increased by \$6 billion to \$43.5 billion. The overall level of the State's liabilities decreased by \$700 million in the year, mainly as a result of reductions in unfunded superannuation liabilities and interest-bearing liabilities.

Notwithstanding the positive assessment of the financial condition of the State, Mr Pearson drew attention to several external risks to the State's future performance and condition, being:

- the performance of the national economy, and the policy directions and decisions of the Commonwealth Government, which significantly influence the level of Commonwealth grants to the State
- the performance of the State economy and property markets, which significantly influence State-sourced revenues (mainly taxation revenues)
- market volatility impacting on the performance of financial and equity markets, which significantly influence the investment revenues and superannuation expenses of the State
- pressures for wage and salary growth, contributing to increased employment costs.

Mr Pearson's report indicated that over recent years, there has been improvement to the presentation of the State's Annual Financial Report, particularly the level and quality of disclosures. However, Mr Pearson noted that opportunities still remain to further enhance the presentation and disclosures made in the Annual Financial Report of the State on:

- financial commitments
- the transfer of resources to central government through capital contributions by public financial and public non-financial corporations
- the State's interests in jointly controlled assets.

Mr Pearson's report noted delays by the State's major agencies in completing their audited financial reports, indicating a need for improved integration of accounting and administrative systems across these agencies. Mr Pearson recommended that agencies commit to providing resources to improve financial statement preparation processes and submission of financial data to the Department of Treasury and Finance which has responsibility for preparing the State's Annual Financial Report.

The report also noted the recent work of the Australian Accounting Standards Board on improving public sector financial reporting, particularly the development of public sector-specific accounting standards and the financial disclosure requirements for *whole-of-government* financial reporting. He stated that "the outcomes of this work are likely to have significant impacts on future financial reporting in the public sector".

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Direct link to report: http://www.audit.vic.gov.au/reports_finance/07afrcv.html

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