

18 February 2013

FILE NO: 13.02/13

Ms Valerie Cheong
Executive Officer
Public Accounts and Estimates Committee
Level 3
55 St Andrews Place
East Melbourne VIC 3002

Dear Ms Cheong

PAEC enquiry into the 2011-12 Financial and Performance Outcomes

Please find VAGO's completed questionnaire on the Annual Financial Report as requested by the Chairman in his letter of 6 February 2013. An electronic copy has been emailed to paec@parliament.vic.gov.au.

As requested, the answers in the questionnaire are concise and address only the direct question asked. However, we provide the further contextual comments below to be read in conjunction with our response to question one.

Question one is asked in the context of VAGO in its role in 'auditing the budget papers'. However, VAGO does not conduct an *audit* of the EFS, and does not conclude on the budget papers in their entirety. Rather, VAGO conducts a *review* of the Estimated Financial Statements (EFS) that form only one part of the budget papers.

The Auditor-General, as required by section 16B of the Audit Act 1994, expresses a conclusion on the EFS through the issue of a review report. The review report makes clear that we do not conduct an audit and therefore do not provide assurance or an audit opinion.

This is because the EFS is, by its nature, prospective and based on expectations and anticipation of events and actions that have not yet occurred and may not indeed occur.

In preparing the data for the forward estimate periods for each EFS, predictions are made about the economic conditions and the policy objectives of government that will apply four financial years into the future. This long lead time can lead to variances against forecasts, especially in the 'out-year' (four year predictions).

In keeping with this, the Auditor-General's review report states that, because of the prospective nature of the EFS, actual results may differ and that difference could be material.

We reviewed the data PAEC provided in the summary tables preceding question one and identified that for the past five financial years the variation between the earliest estimate for revenue (made four years prior) and actual revenue ranged between 10.9 per cent and 20.4 per cent. Similarly, over the same five year period the earliest estimate to actual variation for expenditure was between 11.9 and 19.9 per cent.

Both revenue and expenditure are conservatively estimated; that is, both reveal under- rather than over-estimation.

Whilst these variations are material, our review of the estimated financial statements has not found that they are inconsistent with the inherent uncertainties in the forward estimate process. However, a broader analysis of forecast variances and good practice in other jurisdictions may be useful if the Committee wishes to consider further the significance of these variances.

If you require further assistance please do not hesitate to contact, Ms Simone Bohan, Sector Director on 8601 7175 or Simone.Bohan@audit.vic.gov.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'P. Frost', written over a faint, illegible background.

Dr Peter Frost
Acting Auditor-General