

# Annual report 2019–2020

**Victorian Pharmacy Authority**

**VICTORIAN PHARMACY AUTHORITY**

**TENTH ANNUAL REPORT**

**For the period 1 July 2019 to 30 June 2020**

Issued by authority of the Victorian Pharmacy Authority

**Chair**

Mr David McConville BPharm MPS AACPA MAICD

**Registrar**

Mr Aaron Bawden BPharm BPharmSci(Hons) GAICD MPS

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# Responsible bodies declaration

Jenny Mikakos MP  
Minister for Health  
Minister for Ambulance Services

In accordance with the *Financial Management Act 1994*, I am pleased to present the report of operations for the Victorian Pharmacy Authority for the year ending 30 June 2020.



David McConville  
**Chair**  
Victorian Pharmacy Authority  
Melbourne  
8 September 2020

# Chair's report

On behalf of the Victorian Pharmacy Authority (the Authority) I am pleased to present this tenth Annual Report.

This year we celebrate 10 years regulating pharmacy businesses, pharmacy departments and pharmacy depots to ensure a safe pharmacy system. Some achievements in the 10 years include:

- Publishing guidelines representing the Authority's policies and supporting the provisions of the *Pharmacy Regulation Act 2010* (the Act) and reviewing these on an annual basis.
- Publishing regular communiques and circulars to licensees and stakeholders to support compliance with the Act and good pharmacy practice and to provide information on current issues.
- Enhancing our risk-based approach to pharmacy regulation, including
  - inspections aimed at monitoring compliance and assisting pharmacists to meet their obligations; and
  - the assessment of sterile compounding facilities for compliance with standards relating to quality and safety of medicines and operator safety.
- Commissioning an external review of licence application processes to ensure these are adequate to determine applications in the complex contemporary pharmacy environment, resulting in significant changes to application processes.
- Commencing pharmacy business ownership audits, detailed legal reviews of franchise agreements and issuing guidance on pharmacy business commercial arrangements to ensure that pharmacies are owned and controlled only by registered pharmacists.
- Actively participating in the Pharmacy Premises Registering Authorities of Australia (PPRAA) group to share information with our state/territory counterparts and promote national consistency in pharmacy regulation.
- Introducing a rigorous corporate governance program.

The Authority will continue to adapt and evolve to regulate in a very dynamic pharmacy environment, ensuring registered premises provide suitable environments to support safe pharmacy practice and the ownership provisions of the Act are met.

The Authority continues its work to meet the performance improvement targets outlined in the Ministerial Statement of Expectations and implement other continuous improvement initiatives. Challenges presented by the coronavirus pandemic (COVID-19) have delayed progress in some areas, namely engagement with stakeholders to obtain feedback on the risk-based focus of the Authority's inspection program.

2020 has been a very challenging year for pharmacists due to COVID-19. In recognition of these challenges the Authority relaxed some regulatory requirements and did not increase fees on 1 May 2020.

As can be seen from the Financial Statements in this Annual Report, the Authority remains in a financially sound position with full compliance with all auditing requirements.

## **Pharmacy business ownership**

An evaluation of the first year of the pharmacy business ownership audit program was undertaken early in 2020 with a report to stakeholders published in September 2020. Planned improvements to the program including new areas of scrutiny and an increased focus on franchise agreements and financial auditing.

The Authority plans to engage with stakeholders to identify further improvements to the program. The stakeholder forum on licence application processes in December 2019 was a success and further forums in other areas will follow.

We will continue to audit pharmacy business ownership and commercial arrangements, implement program improvements, and undertake further detailed legal reviews of franchise agreements to ensure compliance with the ownership and undue influence provisions of the Act.

### **Compliance activities**

Authority officers continue to conduct inspections of pharmacies and pharmacy departments to monitor compliance. Inspections also play a vital role in providing education to pharmacists regarding current requirements.

As can be seen in the report on Panel Hearings, the Authority continues to take action in relation to failures of good pharmacy practice, with a significant number of matters dealing with potential breaches of the Act and poor practices around compliance with drugs and poisons legislation.

The Authority is currently working to develop standards pursuant to section 86 of the Act and will consult with licensees on the draft standards.

### **Acknowledgements**

During the year, the Authority farewelled pharmacist member Joey Calandra. I wish to thank Joey, who joined the Authority in July 2014, for his valuable contributions and insight on pharmacy practice and governance.

In April 2020, the Authority welcomed Divesh Sanghvi as the fourth pharmacist member. Divesh is a second-generation pharmacist and pharmacy owner. I look forward to his support and contributions.

In what has been a challenging year for pharmacists and Victorians, I wish to acknowledge and thank my fellow Authority members, the Registrar, and his team. Their resilience, dedication and hard work have ensured a successful year for the Authority.

David McConville  
**Chair**

# Registrar's report

Much has been achieved in 2019-20, despite the challenges arising in the latter half of the reporting period.

COVID-19 significantly impacted the operations of the Authority. This has included:

- Moving our operations to a virtual office;
- Undertaking inspections on a revised risk basis following the implementation of restrictions implemented by the state government, with site visits only carried out in response to an identified public safety risk from March 2020;
- Introducing remote inspections from March 2020 (in cases of new premises, alterations to existing premises, changes of ownership and complaints);
- Postponing the recruitment of two registered pharmacists to the position Pharmacist – Authorised Officer; and
- Postponing implementation of some targets under the Statement of Expectations.

Recognising the pressure on pharmacies and pharmacists due to COVID-19, in April 2020 certain regulatory requirements were relaxed to ease the burden on licensees:

- The requirement for licensees to apply for approval to alter registered premises where alterations related to managing consumer access, traffic and interactions to minimise contact was temporarily waived.
- Applications for approvals aimed at ensuring continuity of pharmacy services during the pandemic were prioritised.
- We focussed our communications to licensees and pharmacists on information and resources to support them during the pandemic.

## Inspection program

The Authority met its inspection targets for the 2019 *calendar* year.

In 2019-20, significant work was undertaken to review the risk-based focus of the inspection program. In preparation for stakeholder engagement, a review of the outcomes of inspections conducted from July 2017 to March 2020 was carried out and a risk analysis for the inspection program was updated.

A stakeholder engagement plan has been developed to seek feedback and this work will continue in 2020-21.

## Service standards

The Authority aims to carry out an initial assessment of a complete application within five business days of receipt. Processing should be completed within a further five business days of an Authority decision, or receipt of any outstanding information. In 2019-20:

- Eighty-seven percent (87%) of complete applications received an initial assessment within five working days of receipt;
- Ninety-nine percent (99%) of applications were processed within a further five working days of receipt of outstanding information or a decision of the Authority.

The Authority publishes a quarterly performance report including information on its activities and intended outcomes on its website at [www.pharmacy.vic.gov.au](http://www.pharmacy.vic.gov.au).

## **Policy development**

Work on the upgrade of the VPA's policy and procedures in response to audit recommendations has continued. The documentation system is now in the implementation phase with regular periodic reviews to ensure that the policies and procedures remain relevant, effective and enforced. A training system has been implemented to ensure that new employees, contractors and existing staff are trained in the VPA's policies and procedures.

## **Other initiatives**

After five years as Registrar I am looking forward to implementing further significant improvements, building on our risk-based regulatory approach and continuing to support the Authority to meet its strategic objectives.

We are exploring options to improve the Authority's information management systems, an important step towards moving applications online and a better user interface for our stakeholders.

The challenges of remote working have highlighted the importance of supporting positive mental health and wellbeing and I will continue to explore and implement initiatives in this area in consultation with our team.

## **Acknowledgements**

I acknowledge the support and contributions of the Authority members throughout the year, especially the leadership of Chair David McConville.

I sincerely thank all the staff for their ongoing dedication, hard work and resilience in what has been a very challenging year.

The Authority also acknowledges the ongoing assistance provided by the Medicines and Poisons Regulation branch of the Department of Health and Human Services.

Aaron Bawden  
**Registrar**

# Introduction

## Charter and Purpose

### Establishment

The Victorian Pharmacy Authority (**the Authority**) is established pursuant to section 81 of the *Pharmacy Regulation Act 2010* (**the Act**). The responsible Minister is the Minister for Health.

The Minister for Health during 2019–2020:

Jenny Mikakos MP

01/07/2019 - 30/06/2020

Minister for Health

Minister for Ambulance Services

### Our vision

*A safe pharmacy system that is responsive to community needs and interests.*

## Objectives, functions, powers and duties

The Authority regulates the ownership and operation of pharmacy businesses, pharmacy departments and pharmacy depots.

Pursuant to section 82 of the Act the Authority has the following functions—

- (a) to license a person to carry on a pharmacy business or a pharmacy department;
- (b) to register the premises of a pharmacy business, pharmacy department or pharmacy depot;
- (c) to issue standards in relation to the operation of pharmacies, pharmacy businesses, pharmacy departments and pharmacy depots;
- (d) to advise the Minister on any matters relating to its functions;
- (e) when so requested by the Minister, to give to the Minister any information reasonably required by the Minister;
- (f) to keep a public register;
- (g) any other function conferred on the Authority by or under this or any other Act.

The Authority has carried out its statutory obligations under the Act and the major activities are summarised in this report.

### Our guiding principle

*To act in the public interest to make the pharmacy system safe.*

### Our goals

1. A safe pharmacy system that responds to community needs
2. Informed stakeholders who engage with good regulatory practice
3. A sustainable, responsive and performance-focused Authority
4. National consistency of pharmacy regulation

# Year in review

## Organisational structure

The Authority consists of members supported by a Registrar and other staff:

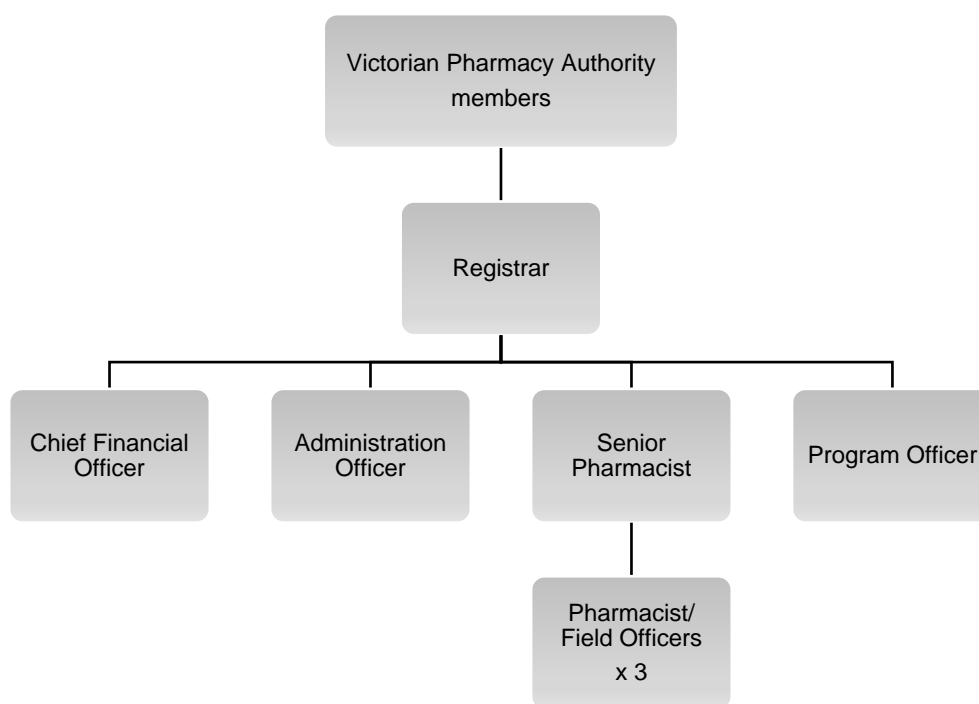


Figure 1. Victorian Pharmacy Authority organisational structure

## Authority membership

Pursuant to section 87 of the Act, the Authority consists of members appointed by the Governor in Council on the nomination of the Minister. Three must be registered pharmacists, one must be an Australian lawyer and one must be a person who is not a registered pharmacist.

Membership of the Authority to 30 June 2020 was as follows:

### Chair

Mr David McConville BPharm, MPS, AACPA, MAICD

Initially appointed: 1 July 2018

Present term of appointment: until 30 June 2021

### Pharmacist Members

Ms Casuarina Fersterer BPharm, MPharmPrac

Initially appointed: 1 July 2016

Present term of appointment: until 30 June 2022

Mr Brendon Moar BPharm, MPS

Initially appointed: 1 July 2018

Present term of appointment: until 30 June 2021

Mr Giuseppe Calandra MBA, BPharm Hons, MRPharmS, CertIVTAE, MPS

Initially appointed: 1 July 2014

Retired: 13 August 2019

Mr Divesh Sanghvi BPharm, MPS  
Initially appointed: 28 April 2020  
Present term of appointment: until 30 June 2022

One Australian Lawyer

Ms Elizabeth Kennedy BA LLB (Hons), LLM (Melb), Grad Dip Health & Med Law, GAICD  
Initially appointed: 1 July 2019  
Present term of appointment: until 30 June 2022

One person who is not a registered pharmacist

Ms Marie Ritchie GradCertBA, MAICD, HonMemPDL  
Initially appointed: 1 July 2018  
Present term of appointment: until 30 June 2021

Members of the Authority are appointed for a period, not exceeding three years, but are eligible for re-appointment upon the expiry of their term of office.

## Authority meetings

During the period 1 July 2019 to 30 June 2020, twelve Authority meetings were held with attendance by Authority members as follows:

| Member                                 | Authority Meetings | Leave of Absence |
|--|--------------------|------------------|
| Mr D McConville                        | 12 of 12           | -                |
| Ms C Fersterer                         | 11 of 12           | 1                |
| Mr B Moar                              | 10 of 12           | 2                |
| Ms M Ritchie                           | 12 of 12           | -                |
| Ms E Kennedy                           | 12 of 12           | -                |
| Mr D Sanghvi (Appointed 28 April 2020) | 2 of 2             | -                |
| Mr G Calandra (Retired August 2019)    | 2 of 2             | -                |

## Audit and Risk Committee

The Authority has an Audit and Risk Committee comprising an independent external chairman with accounting qualifications, Mr N Marshall, and three Authority members; Mr D McConville, Mrs E Kennedy and Mr B Moar at 30 June 2020. A quorum comprises the chairman and two other members. The Committee met four times during the reporting period.

## Staffing

The Authority had a staff of eight at 30 June 2020, with a Full Time Equivalent (FTE) of 6.1. These comprised the Registrar who is the Authority's chief executive officer, a Senior Pharmacist whose responsibilities include supervising licensing and registration processes and managing the inspection program, three pharmacists including field staff, a Program Officer, a Chief Financial Officer and an Administration Officer.

|                            |                                    |
|----------------------------|------------------------------------|
| Registrar:                 | Mr A Bawden                        |
| Senior Pharmacist:         | Mr D Thirlwall                     |
| Chief Financial Officer:   | Mrs K Nadanakumar                  |
| Administration Officer:    | Mrs H Newett                       |
| Program Officer            | Dr D J Snell                       |
| Pharmacist/Field Officers: | Mrs C Greco, Ms J Webster, Ms T To |

Two vacancies for the position of Pharmacist – Authorised Officer existed at 30 June 2020. The recruitment process commenced in February 2020 but was suspended due to the COVID-19 pandemic. When these positions are filled it is expected that the previous workforce of 10 staff will be restored.

#### Workforce data

|                | Full Time Equivalent (FTE) |              |
|----------------|----------------------------|--------------|
|                | 30 June 2020               | 30 June 2019 |
| Staff of eight | 6.10                       | 6.30         |

The Authority is committed to ensuring staff health, safety and wellbeing. There were no reported hazards/incidents during the year. The Authority's values align with public sector values as detailed in the *Public Administration Act 2004*, and all staff were employed pursuant to merit and equity principles and compliance with the Code of Conduct for Victorian Public Sector Employees.

## Fees

Fees paid to Authority Members and Panel Members for attendance at meetings were as follows:

|        |          |
|--------|----------|
| Chair  | \$327.00 |
| Member | \$256.00 |

Schedule of gazetted fees (Effective from 1 May 2020):

| PROVISION  | FEE        |
|--|------------|
| <b>Licences</b>  |            |
| Annual licence – individual  | \$290.00   |
| Annual licence – corporate   | \$645.00   |
| Annual licence – hospital  | \$375.00   |
| <b>Registration</b>  |            |
| Annual registration – pharmacy business  | \$285.00   |
| Annual registration – pharmacy department                                      | \$285.00   |
| Annual registration – pharmacy depot   | \$75.00    |
| <b>Applications</b>  |            |
| Application for registration of pharmacy business                              | \$430.00   |
| Application for registration of pharmacy department                            | \$525.00   |
| Application for registration of pharmacy depot                                 | \$75.00    |
| Application for approval of alterations to a registered pharmacy business      | \$430.00   |
| Application for licence to carry on a pharmacy business                        | \$340.00   |
| Application for licence to carry on a pharmacy business - Complex              | \$720.00   |
| Application for approval to practise in special circumstances section 29(1)(b) | \$145.00   |
| <b>Other fees</b>  |            |
| Site re-inspection   | \$430.00   |
| Trust or other commercial arrangement assessment                               | \$1,900.00 |

The above fees are exempt from GST (Division 81 of GST Act).

The Authority did not increase fees from 1 May 2020 for 2020-21.

# Registration and licensing

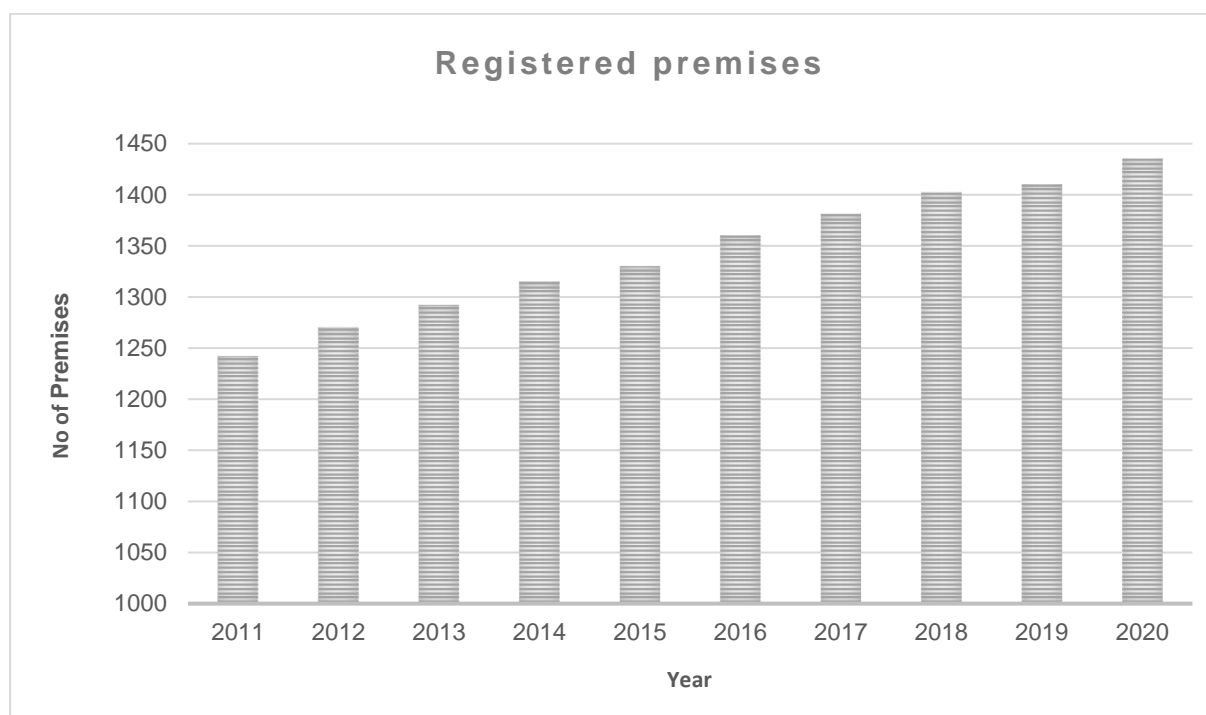
The table below summarises the activities for the Period 1 July 2019 – 30 June 2020.

| Applications  | Number<br>2017 - 2018 | Number<br>2018 - 2019 | Number<br>2019 - 2020 |
|---|-----------------------|-----------------------|-----------------------|
| Registration of pharmacy premises and pharmacy department premises  | 126                   | 121 <sup>(1)</sup>    | 138 <sup>(1)</sup>    |
| Pharmacy Depots   | -                     | -                     | -                     |
| Approval of pharmacists to supply, compound or dispense medicines other than at a pharmacy or pharmacy department | 60                    | 52                    | 52                    |
| Licence to carry on a pharmacy business   | 248                   | 212 <sup>(2)</sup>    | 228 <sup>(2)</sup>    |

- (1) Registration applications
- new/relocated pharmacies 61
  - alterations 68
  - pharmacy department 9
- (2) Licence applications
- pharmacist 27
  - pharmacist (complex) 104
  - company 21
  - company (complex) 60
  - hospital/friendly society 16

Certain matters are delegated to officers of the Authority to approve subject to set approval criteria and compliance with the Authority's Guidelines. All other applications and reports were considered by the Authority at its monthly meetings.

## Registered pharmacy premises statistics



| Registered premises  | At 30 June 2019 | At 30 June 2020 |
|----------------------|-----------------|-----------------|
| Pharmacies           | 1,410           | 1,435           |
| Pharmacy Departments | 73              | 75              |
| Pharmacy Depots      | 19              | 18              |

## Standards monitoring

The Authority supervised the inspection program conducted by its Officers.

The inspection program provides for an inspection of each pharmacy at least every 3 years plus targeted inspections on a risk basis in cases of:

- change of ownership;
- new pharmacy premises;
- altered pharmacy premises;
- notifications (complaints); and
- unsatisfactory previous inspections.

Inspectors examine security, workload, privacy, equipment, fittings, compliance with legislation and pharmacy practice standards. They pay particular attention to storage and records of controlled drugs, opioid replacement therapy, complex compounding, provision of dose administration aids and vaccination services. This pro-active process is fundamental to providing public protection and to providing education to pharmacists regarding current requirements.

During the period, the following site inspections were conducted:

| <b>Inspection category</b>                            | <b>2017</b> | <b>2018</b> | <b>2019</b> | <b>2020</b> |
|---|-------------|-------------|-------------|-------------|
| Inspection on change of licence                       | 99          | 83          | 90          | 100         |
| Registration Inspection                               | 131         | 115         | 94          | 121         |
| Standards monitoring inspection – community pharmacy  | 641         | 624         | 659         | 466         |
| Standards monitoring inspection – pharmacy department | 10          | 35          | 35          | 10          |
| <b>Total inspections</b>                              | <b>881</b>  | <b>857</b>  | <b>878</b>  | <b>697</b>  |

A program of provisional remote inspections was commenced in April 2020 in response to COVID-19. These inspections focussed on new premises, alterations to existing premises, changes of ownership and complaints. As a result of this change, the number of routine cyclical inspections undertaken to monitor standards were reduced and this is reflected in the reduced number of inspections for the financial year.

[The above table does not include provisional remote inspections]

The Authority met its target for cyclical inspections in the 2019 *calendar* year (Officers of the Authority conducted 404 cyclical inspections and 325 review inspections during the 2019 calendar year).

Where the Authority deemed it appropriate, pharmacy proprietors were invited to attend a meeting with Authority members to discuss inspection reports that indicated a significant deviation from practice standards or the requirements of the Schedule to the Act. In more serious cases, the Authority convened a Panel to hear the matters.

### *Common serious deficiencies*

Statistics obtained from inspection reports are analysed and used to focus the inspection program towards areas of significant non-compliance and risk. Based on this analysis and reference to the Authority's risk register, inspectors pay close attention to common high-risk areas in forthcoming inspections. The following areas of focus were identified from inspections during the reporting period:

- Adequacy of pharmacy reference libraries
- Barcode scanning for dispensing accuracy undertaken routinely during dispensing
- Timely and accurate recording of transactions and regular reconciliation of stocks and records for Schedule 8 poisons
- Appropriate storage of Schedule 8 poisons
- Adequacy of dispensary staffing levels

- Adequate arrangements for privacy throughout the pharmacy
- Appropriate storage and display of Schedule 3 medicines including pseudoephedrine products
- Pharmacy dispensaries maintained as private areas dedicated to dispensing

The Authority is currently reviewing the risk-based focus of its inspection program and plans to consult with stakeholders as part of this review in accordance with its Statement of Expectations.

The chart shown in Figure 2 indicates the totals of inspections of community pharmacies and hospital pharmacy departments conducted for the past five years.

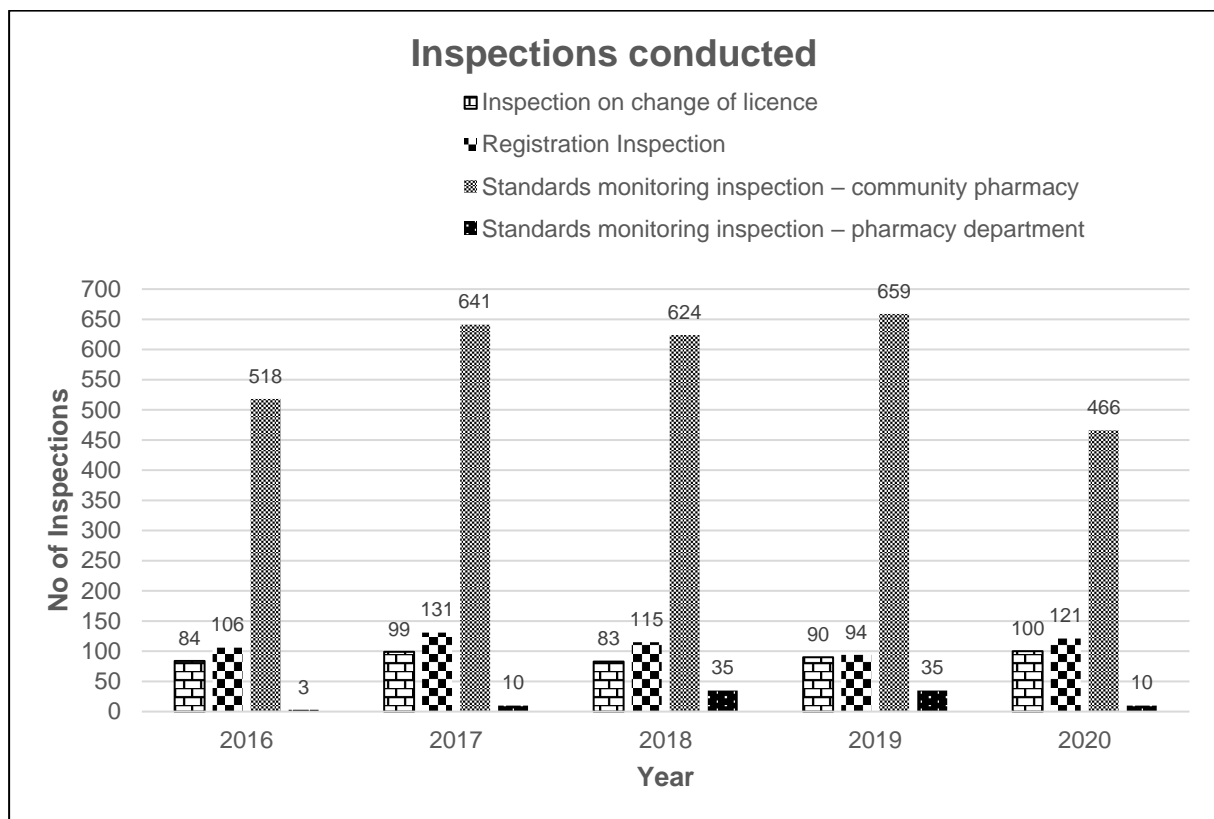


Figure 2

The Authority's Guidelines were revised and published with effect 1 November 2019 following a period of public consultation. All inspection protocols were reviewed and updated in December 2019.

# Panel hearings

## Background

The Authority may investigate a matter relating to a licence or premises registration. This may result from an inspection revealing serious deficiencies. In the case of an investigation, a licensee is given the opportunity to respond to the Authority to provide an explanation and detail steps taken to rectify deficiencies before any further action is taken.

Following an investigation, the Authority may decide to take no further action, request the licensee(s) attend an Authority meeting to discuss the issues, or convene a panel hearing.

A panel convened pursuant to section 57 of the Act to hear a matter which has been the subject of an investigation may result in:

- a condition(s) being placed on a licence and/or premises registration;
- cautioning or reprimanding of a licensee or registration holder;
- the licence or premises registration continuing;
- a licence and/or premises registration being revoked.

The Authority may also direct that a site re-inspection be undertaken and in such cases a fee is charged to the licensee(s).

Panel hearings are reserved for matters involving serious failures of good pharmacy practice including alleged breaches of the Act and other legislation or serious non-compliance with Authority Guidelines and good pharmacy practice.

## Summary of 2019-20 Panel Hearings

The Authority conducted forty-eight panel hearings during the period. The hearings considered a total of 272 matters arising from inspections and notifications. The following table categorises the 272 matters. Typically, a panel hearing will consider matters from a range of compliance categories (including failures of good pharmacy practice in relation to legislation, guidelines and practice standards).

| Non-compliance category  | Number of hearings considering matters in each category | Total number of matters considered (n=272) |
|--|---|--|
| 1. <i>Pharmacy Regulation Act 2010</i>   | 12  | 16   |
| 2. Victorian Pharmacy Authority Guidelines   | 28  | 41   |
| 3. Drugs Poisons and Controlled Substances legislation   | 44  | 85   |
| 4. Pharmacy Board of Australia Guidelines  | 34  | 52   |
| 5. Other matters: including requirements of Pharmacotherapy Policy (DHHS), APF, TGA, mandatory warning labels, disposal of RUMs, privacy legislation, other DPCS-related. [Additional VPA guideline-related matters also included] | 46  | 78   |

## Abbreviations:

|      |  |
|------|--|
| DHHS | Department of Health and Human Services              |
| APF  | Australian Pharmaceutical Formulary and Handbook     |
| TGA  | Therapeutic Goods Administration                     |
| RUM  | Return Unwanted Medicines                            |
| DPCS | Drugs, Poisons and Controlled Substances legislation |

## **Pharmacy Regulation Act 2010 (the Act)**

Twelve hearings (25%) considered matters relating to potential breaches of the Act, with such matters invariably being the trigger for the hearings. These included:

- a licensee being no longer eligible to hold a licence;
- the distribution of pharmacy profits to non-pharmacists via a trust;
- failure to restrict the control of keys and access to a closed pharmacy;
- failure to maintain the premises in a clean and hygienic manner; and
- inadequate arrangements to ensure dispensed and supplied medicines are not re-used.

## **Victorian Pharmacy Authority Guidelines**

Twenty-eight hearings (58%) included specific consideration of matters relating to failure to comply with VPA Guidelines\*. There were 41 matters considered across a range of areas including the dedicated use of the pharmacy dispensary, refrigerator temperature monitoring, privacy arrangements, requirements for complex compounding and failure to obtain approval before undertaking significant alterations to registered premises

\* Non-compliance with VPA Guidelines may also be considered along with other matters indicating a general failure to comply with good pharmacy practice. This has the effect of reducing the numbers of matters considered.

## **Drugs Poisons and Controlled Substances legislation**

Forty-four (44) hearings (92%) included consideration of matters related to potential breaches of drugs and poisons legislation (Drugs, Poisons and Controlled Substances Act 1981 & Drugs, Poisons and Controlled Substances Regulations 2017).

- 44 hearings included matters relating to records for Schedule 8 poisons;
- 22 hearings involved matters relating to the storage of Schedule 8 poisons (all of which also included deficiencies relating to S8 records);
- Two hearings included matters relating to the storage of Schedule 4 poisons;
- One hearing included a matter relating to the storage/display of Schedule 3 poisons.

The Authority convenes panel hearings following inspections that identify serious potential breaches of drugs and poisons legislation pertaining to storage and/or recording of Schedule 8 poisons and routinely refers investigation reports to the Department of Health and Human Services, Medicines and Poisons Regulation branch.

## **Pharmacy Board of Australia Guidelines**

Thirty-four hearings (71%) included consideration of matters relating to failure to comply with Pharmacy Board of Australia Guidelines. These included failures to maintain current editions of mandatory references, failure to undertake routine barcode scanning and failure to maintain adequate filling records for dose administration aids. Several of these included serious breaches of good pharmacy practice with respect to complex compounding.

## **Panel Determinations**

Determinations of Panel Hearings were as follows:

- 25 of the 48 hearings resulted in licensees receiving a reprimand;
- 22 hearings resulted in licensees received a caution;
- 8 hearings resulted in condition(s) being placed on a licence; and
- 9 hearings resulted in a pharmacy premises re-inspection at the licensee's cost.

It should be noted that panel decisions may include a range of determinations, such as a caution and the imposition of a condition.

One hearing was adjourned in the reporting period.

# Statement of Expectations

## *Statement of Expectations 2019-21 – progress at 30 June 2020*

The current two-year Statement of Expectations (**SOE**) issued by the Minister for Health includes targets related to timeliness, risk-based strategies and compliance-related assistance and advice across key regulatory areas.

The SOE can be viewed at [www.pharmacy.vic.gov.au](http://www.pharmacy.vic.gov.au).

The Authority met many of the performance improvement targets scheduled for completion by 30 June 2020. Some targets have been delayed due to the impact of COVID-19.

A summary of progress at 30 June 2020 is included below.

### *Targets completed*

- Clearly differentiate the pharmacy ownership audit phase from any post-audit investigation by 31 December 2019 (to facilitate publication of audit outcomes)
- Develop a Service Charter for publication on the Authority's website by 31 December 2019
- Host a stakeholder forum on application processes and service standards by 31 December 2019
- Review and revise inspection-related guidance documentation by 31 December 2019 with a view to expanding the range of guidance provided
- Commence routinely sending approval letters and licence/registration certificates to applicants by email at the time of issue by 30 June 2020
- Incorporate a declaration of compliance in high-risk areas commencing with 2020 renewal applications (by 30 June 2020)

### *Targets delayed*

- Obtain feedback from stakeholder organisations on the risk-based focus of the Authority's inspection program by 30 June 2020. Any resulting changes to the inspection program to be communicated to stakeholders. [Delayed due to COVID-19]
- Review and revise the Authority's self-audit form for registered premises for publication on the Authority's website by 30 June 2020. [Delayed due to COVID-19]
- In consultation with stakeholders, develop a compliance and awareness aid for the management of Schedule 8 poisons in pharmacies, for publication and distribution to pharmacy premises by 30 June 2020. [Delayed due to COVID-19 – expected to be completed by 31 December 2020]

The Authority will publish a detailed status update in 2021.

## Pharmacy ownership audit program

A program of risk-based audits of pharmacy businesses was a key recommendation of the 2017 Review of pharmacy business licence application and renewal processes undertaken by *PharmConsult*.

The audit program commenced in December 2018. It involves ownership audits conducted by Authority staff to determine if pharmacy ownership and commercial arrangements comply with the Act. Financial audits are conducted for a subset of pharmacy businesses by an external accountancy firm to confirm the veracity of the information & documentation submitted by licensees.

### *Report to 31 December 2019*

An evaluation of the first year of the Pharmacy ownership audit program is available on the Authority's website at [www.pharmacy.vic.gov.au](http://www.pharmacy.vic.gov.au).

A major barrier to progress has been delays caused by licensees failing to provide information in a timely manner.

During the 2019 calendar year 101 ownership audits and six financial audits were initiated. Of these, thirty-five ownership audits and two financial audits were completed. The completed ownership audits did not identify any cases of silent or undeclared ownership. The two completed financial audits identified one case in which profits were distributed via a trust to family members who were not eligible to have a proprietary interest.

Additionally, the Authority's parallel franchise agreement review program has found extensive evidence that franchise agreements and other complex commercial arrangements provide for third parties to exert control or undue influence over pharmacy businesses.

Recognising that the financial audits together with the parallel review of franchise agreements are the most effective tools to identify non-compliant arrangements, the report presents several program changes including the following:

1. The ownership audit process will be amended to include new areas of scrutiny and investigation;
2. The annual target for ownership audits will be reduced;
3. The number of financial audits will be maintained or increased; and
4. The rolling program of franchise and service agreement reviews will be accelerated.

In cases where information is not provided or is incomplete without reasonable excuse, licensees will be advised that continued failure to provide information may lead to prosecution.

The Authority will consult with stakeholders to help identify further improvements to the audit program and will continue to report on outcomes by publishing reports annually and including de-identified information about specific findings and actions in its communications.

## Stakeholder engagement

The Authority hosted a stakeholder forum in December 2019 to seek stakeholder feedback on licence application processes, forms and service standards. This followed the commitment to identify improvements to the Authority's processes to promote efficient regulatory practice and reduce regulatory burden for regulated entities as outlined in its Statement of Expectations.

The Authority invited representatives from law firms, pharmacy brokers, the Pharmacy Guild of Australia (VIC Branch), pharmacy groups and pharmacists who regularly submit applications to the Authority. Pharmacists who have experience with Authority applications were also encouraged to attend the forum to provide feedback.

The Authority reviewed the key discussions in the forum and endorsed a series of outcomes which can be viewed in a report issued in February 2020 (see *Circular No. 20 - 28 February 2020* at [www.pharmacy.vic.gov.au](http://www.pharmacy.vic.gov.au)).

The Authority plans to host further forums covering other topics in the future.

In past years, the Authority published a monthly Communiqué on its regulatory activities for distribution electronically to stakeholders including pharmacy peak bodies, educational institutions and other regulators. The broader quarterly Circular was distributed to all registered premises, licensees and other pharmacists by request.

Commencing in 2020, the Authority began electronically distributing quarterly Circulars to all stakeholders. Communiqués will be limited to distribution on an ad hoc basis to address urgent matters. Circulars and Communiqués will continue to be published on the Authority's website for easy access and reference. Circulars will continue to feature application guidance and information to support compliance with the ownership provisions of the Act on an ongoing basis.

## Financial and other information

### Five-year summary of financial results

|                                    | <b>2020</b>  | <b>2019</b>  | <b>2018</b>  | <b>2017</b>  | <b>2016</b>  |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|
|                                    | <b>\$000</b> | <b>\$000</b> | <b>\$000</b> | <b>\$000</b> | <b>\$000</b> |
| Total revenue                      | 1,592        | 1,469        | 1,147        | 1,090        | 1,106        |
| Total expenses                     | 1,568        | 1,422        | 1,134        | 1,157        | 986          |
| <b>Net result from transaction</b> | <b>24</b>    | <b>47</b>    | <b>13</b>    | <b>(67)</b>  | <b>120</b>   |
| Total other economic flows         | (3)          | 6            | -            | (5)          | -            |
| <b>Net result</b>                  | <b>21</b>    | <b>54</b>    | <b>13</b>    | <b>(72)</b>  | <b>120</b>   |
| Total assets                       | 3,516        | 2,898        | 2,733        | 2,534        | 2,482        |
| Total liabilities                  | 2,001        | 1,404        | 1,293        | 1,108        | 984          |
| <b>Net assets/Total equity</b>     | <b>1,515</b> | <b>1,494</b> | <b>1,440</b> | <b>1,426</b> | <b>1,498</b> |

### Financial operations

The following matters are noted with respect to the Authority's financial operations:

- The Authority recorded a surplus of \$24,642 this financial year.
- Revenue from operating activities increased by 10%.
- The total operating expenditure increased by 4%.
- Interest on surplus funds at Central Banking System (CBS) decreased by 50%.
- The total revenue of \$1,592,864 was 4.7% higher than the budget estimate of \$1,520,665.
- The total expenditure of \$1,571,222 was 3.6% higher than the budget estimate of \$1,516,949.
- The one-off grant of \$130,000 from the Department of Health and Human Services (DHHS Grant) received in January 2019 to support implementation of the Authority's pharmacy business ownership audit program (Ownership Audit Program) was expended in full by 29 February 2020. The DHHS Grant also provided for additional franchise reviews.
- Significantly contributing to the Authority's legal expenses in the reporting period were matters relating to pharmacy business ownership audits and franchise reviews.
- Fees fixed by the Authority on 1 May 2020 were unchanged from 2019. Fees were increased by approximately 12% from 1 May 2019 (reflected in 2019-20 renewal income) to cover the cost of administering the Act.

## Consultancies information

### Details of consultancies (under \$10,000)

In 2019-20, there were six consultancies where the total fees payable to the consultants were less than \$10,000. The total expenditure incurred during 2019-20 in relation to these consultancies is \$15,005 (excl. GST).

### Details of consultancies (valued at \$10,000 or greater)

In 2019-20 there was no consultancy where the total fees payable to the consultants was \$10,000 or greater.

## Information and Communication Technology (ICT) expenditure

The Authority's total ICT Business as Usual expenditure (excluding GST) for the reporting period was \$70,967.

## Freedom of Information

The *Freedom of Information Act 1982* allows the public a right of access to documents held by the Authority.

Pursuant to Part II of the *Freedom of Information Act 1982*, the Authority has published on its website details regarding its functions and documents held by the Authority including those available for inspection and/or purchase. Information regarding freedom of information (FOI) requests is available on the Authority's website: [www.pharmacy.vic.gov.au](http://www.pharmacy.vic.gov.au).

The Authority received no FOI requests during the period of this report.

### *Availability of other information:*

All records of the former Pharmacy Board of Victoria's operations relating to premises registration and business licensing have been retained and maintained, along with all records created by the Authority since its inception, in accordance with the *Public Records Act 1973*.

## Additional information

Further details of activities described in this annual report are available to relevant ministers, members of parliament and the public on request, subject to the provisions of the *Freedom of Information Act 1982*.

## Public Interest Disclosures

The *Public Interest Disclosures Act 2012* (formerly *Protected Disclosure Act 2012*) encourages and facilitates disclosures of improper conduct by public officers, public bodies and other persons, and provides protection from detrimental action taken against a person making a disclosure, witnesses and persons subject to an investigation. Information regarding public interest disclosures is available on the Authority's website.

The Authority is not aware of any disclosures being made during the reporting period (disclosures must be made to IBAC).

The procedures established by the Authority under Part 9 of the *Public Interest Disclosures Act 2012* may be accessed by contacting the Registrar by email: [registrar@pharmacy.vic.gov.au](mailto:registrar@pharmacy.vic.gov.au).

## Environmental performance

The Authority incorporates environmental considerations into its work practices. This includes minimizing:

- Energy and water consumption;
- Air and noise emissions; and
- Paper waste production.

# Complaints

## Complaints about licensees and registered premises

Complaints about licensees (pharmacy owners) or pharmacy premises may be made to the Authority by email to [enquiries@pharmacy.vic.gov.au](mailto:enquiries@pharmacy.vic.gov.au). Complaints may also be posted to Victorian Pharmacy Authority, Level 2, 15-31 Pelham Street, Carlton VIC 3052 or by telephoning the office on (03) 9653 1700.

Complainants will be referred to the appropriate agency if the matter does not fall within the Authority's jurisdiction.

## Investigations

The Authority may investigate a matter relating to a licence or a registration based on a notification (complaint) or without notification (usually following a premises inspection – see pages 13-16 for further information).

The following table lists the total number of complaints received in 2019-20, the number of complaints that were treated as notifications under the Act (investigations with notification), and also the number of investigations without notification undertaken.

|   |    |
|---|----|
| <b><i>Investigations with notification</i></b>    |    |
| Total complaints received                         | 79 |
| Complaints treated as notifications under the Act | 6  |
| <b><i>Investigations without notification</i></b> |    |
| Number of investigations                          | 71 |

## Complaints about pharmacists

The registration of pharmacists and the handling of complaints about the conduct, health or performance of a pharmacist is the responsibility of the Pharmacy Board of Australia which has its services administered by the Australian Health Practitioner Regulation Agency. Visit <https://www.ahpra.gov.au/> for further information.

## Complaints about the Authority

The Authority's Service Charter is available on its website at [www.pharmacy.vic.gov.au](http://www.pharmacy.vic.gov.au). Complaints about the Authority or its staff may be made to the Registrar by email to [registrar@pharmacy.vic.gov.au](mailto:registrar@pharmacy.vic.gov.au) or telephone (03) 9653 1702.

We will acknowledge receipt of a written complaint.

If we are unable to resolve your concerns, the Victorian Ombudsman's Office may be able to assist you. Victorian Ombudsman Level 2, 570 Bourke Street Melbourne VIC 3000 Telephone: (03) 9613 6222 Website: <https://www.ombudsman.vic.gov.au>.

## Attestations

### Financial Management Compliance

I, David McConville, on behalf of the Responsible Body, certify that the Victorian Pharmacy Authority has complied with the applicable Standing Directions of the Minister for Finance under the Financial Management Act 1994 and Instructions.



David McConville  
**Chair**  
Victorian Pharmacy Authority  
Melbourne  
8 September 2020

### Conflict of Interest

I, Aaron Bawden, certify that the Victorian Pharmacy Authority has put in place appropriate internal controls and processes to ensure that it has complied with the requirements of hospital circular 07/2017 Compliance reporting in health portfolio entities (Revised) and has implemented a 'Conflict of Interest' policy consistent with the minimum accountabilities required by the VPSC. Declaration of private interest forms have been completed by all executive staff within the Victorian Pharmacy Authority and members of the board, and all declared conflicts have been addressed and are being managed. Conflict of interest is a standard agenda item for declaration and documenting at each executive board meeting.



Aaron Bawden  
**Registrar**  
Victorian Pharmacy Authority  
Melbourne  
8 September 2020

### Integrity, fraud and corruption

I, Aaron Bawden, certify that the Victorian Pharmacy Authority has put in place appropriate internal controls and processes to ensure that Integrity, fraud and corruption risks have been reviewed and addressed at the Victorian Pharmacy Authority during the year.



Aaron Bawden  
**Registrar**  
Victorian Pharmacy Authority  
Melbourne  
8 September 2020

# Disclosure Index

The annual report of the Victorian Pharmacy Authority is prepared in accordance with all relevant Victorian legislation. This index has been prepared to facilitate identification of the Authority's compliance with statutory disclosure requirements.

| Legislation                                    | Requirement   | Page Reference |
|--|---|----------------|
| <b>Ministerial Directions</b>                  |   |                |
| <b>Report of operations</b>                    |   |                |
| <b>Charter and purpose</b>                     |   |                |
| FRD 22H  | Manner of establishment and the relevant Ministers                      | 8              |
| FRD 22H  | Purpose, functions, powers and duties                                   | 8              |
| FRD 22H  | Nature and range of services provided                                   | 8, 12-14       |
| FRD 22H  | Activities, programs and achievements for the reporting period          | 4-18           |
| FRD 22H  | Significant changes in key initiatives and expectations for the future  | 4-7, 17-18     |
| <b>Management and structure</b>                |   |                |
| FRD 22H  | Organisational structure  | 9              |
| FRD 22H  | Workforce data/ employment and conduct principles                       | 10-11          |
| FRD 22H  | Occupational Health and Safety  | 11             |
| <b>Financial information</b>                   |   |                |
| FRD 22H  | Summary of the financial results for the year                           | 19             |
| FRD 22H  | Significant changes in financial position during the year               | 19             |
| FRD 22H  | Operational and budgetary objectives and performance against objectives | 13-14, 19-20   |
| FRD 22H  | Subsequent events   | 60             |
| FRD 22H  | Details of consultancies over \$10,000                                  | 19             |
| FRD 22H  | Details of consultancies under \$10,000                                 | 19             |
| FRD 22H  | Disclosure of ICT expenditure   | 20             |
| <b>Legislation</b>                             |   |                |
| FRD 22H  | Application and operation of <i>Freedom of Information Act 1982</i>     | 20             |
| FRD 22H  | Application and operation of <i>Protected Disclosure Act 2012</i>       | 20             |
| FRD 22H  | Summary of the entity's environmental performance                       | 20             |
| FRD 22H  | Additional information available on request                             | 20             |
| <b>Other relevant reporting directives</b>     |   |                |
| SD 5.1.4                                       | Financial Management Compliance attestation                             | 22             |
| SD 5.2.3                                       | Declaration in report of operations                                     | 3              |
| <b>Attestations</b>                            |   |                |
| Attestation on managing Conflicts of Interest  |   | 22             |
| Attestation on Integrity, fraud and corruption |   | 22             |

**Disclosure of *ex-gratia* expenses**

No *ex-gratia* payments were made during the period.

**VICTORIAN PHARMACY AUTHORITY**

**FINANCIAL STATEMENTS FOR THE  
YEAR ENDED 30 JUNE 2020**

**VICTORIAN PHARMACY AUTHORITY**

**AUTHORITY MEMBER'S, ACCOUNTABLE OFFICER'S AND  
CHIEF FINANCE & ACCOUNTING OFFICER'S DECLARATION**

The attached financial statements for the Victorian Pharmacy Authority have been prepared in accordance with Direction 5.2 of the Standing Directions of the Assistant Treasurer under the *Financial Management Act 1994*, applicable Financial Reporting Directions, Australian Accounting Standards including Interpretations, and other mandatory professional reporting requirements.

We further state that, in our opinion, the information set out in the comprehensive operating statement, balance sheet, statement of changes in equity, cash flow statement and accompanying notes, presents fairly the financial transactions during the year ended 30 June 2020 and financial position of the Authority at 30 June 2020.

At the time of signing, we are not aware of any circumstance which would render any particulars included in the financial statements to be misleading or inaccurate.

We authorise the attached financial statements for issue on 8 September 2020.



David McConville  
**Chairperson**  
Melbourne  
8 September 2020



Aaron Bawden  
**Registrar**  
Melbourne  
8 September 2020



Koshala Nadeakumar  
**Chief Finance and Accounting Officer**  
Melbourne  
8 September 2020

# Independent Auditor's Report

## To the Members of the Victorian Pharmacy Authority

|   |  |
|---|--|
| <b>Opinion</b>  | <p>I have audited the financial report of the Victorian Pharmacy Authority (the authority) which comprises the:</p> <ul style="list-style-type: none"> <li>• balance sheet as at 30 June 2020</li> <li>• comprehensive operating statement for the year then ended</li> <li>• statement of changes in equity for the year then ended</li> <li>• cash flow statement for the year then ended</li> <li>• notes to the financial statements, including significant accounting policies</li> <li>• authority member's, accountable officer's and chief finance &amp; accounting officer's declaration.</li> </ul> <p>In my opinion the financial report presents fairly, in all material respects, the financial position of the authority as at 30 June 2020 and their financial performance and cash flows for the year then ended in accordance with the financial reporting requirements of Part 7 of the <i>Financial Management Act 1994</i> and applicable Australian Accounting Standards.</p> |
| <b>Basis for Opinion</b>                                  | <p>I have conducted my audit in accordance with the <i>Audit Act 1994</i> which incorporates the Australian Auditing Standards. I further describe my responsibilities under that Act and those standards in the <i>Auditor's Responsibilities for the Audit of the Financial Report</i> section of my report.</p> <p>My independence is established by the <i>Constitution Act 1975</i>. My staff and I are independent of the authority in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 <i>Code of Ethics for Professional Accountants</i> (the Code) that are relevant to my audit of the financial report in Victoria. My staff and I have also fulfilled our other ethical responsibilities in accordance with the Code.</p> <p>I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.</p>  |
| <b>Members' responsibilities for the financial report</b> | <p>The Members of the authority are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the <i>Financial Management Act 1994</i>, and for such internal control as the Members determine is necessary to enable the preparation and fair presentation of a financial report that is free from material misstatement, whether due to fraud or error.</p> <p>In preparing the financial report, the Members are responsible for assessing the authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is inappropriate to do so.</p>  |
| <b>Other Information</b>                                  | <p>The Members of the authority are responsible for the Other Information, which comprises the information in the authority's annual report for the year ended 30 June 2020, but does not include the financial report and my auditor's report thereon.</p> <p>My opinion on the financial report does not cover the Other Information and accordingly, I do not express any form of assurance conclusion on the Other Information. However, in connection with my audit of the financial report, my responsibility is to read the Other Information and in doing so, consider whether it is materially inconsistent with the financial report or the knowledge I obtained during the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude there is a material misstatement of the Other Information, I am required to report that fact. I have nothing to report in this regard.</p>  |

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**Auditor's responsibilities for the audit of the financial report**

As required by the *Audit Act 1994*, my responsibility is to express an opinion on the financial report based on the audit. My objectives for the audit are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the authority's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Members
- conclude on the appropriateness of the Members' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the authority to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Members regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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MELBOURNE  
11 September 2020

Travis Derricott  
*as delegate for the Auditor-General of Victoria*

**Victorian Pharmacy Authority**  
**Comprehensive Operating Statement**

**For the Financial Year Ended 30 June 2020**

|  | Notes | 2020               | 2019               |
|--|-------|--------------------|--------------------|
|  |       | \$                 | \$                 |
| <b>Income from transactions</b>                                |       |                    |                    |
| Revenue from operating activities                              | 2     | 1,571,672          | 1,427,193          |
| Revenue from non-operating activities                          | 2     | 21,193             | 42,659             |
| <b>Total income from transactions</b>                          |       | <u>1,592,865</u>   | <u>1,469,852</u>   |
| <b>Expenses from transactions</b>                              |       |                    |                    |
| Employee expenses  | 3     | (821,866)          | (708,823)          |
| Finance costs  | 3     | (13,012)           | -                  |
| Other administrative expenses                                  | 3     | (56,815)           | (84,752)           |
| Depreciation and amortisation                                  | 3     | (75,228)           | (2,466)            |
| Operating expenses   | 3     | (600,965)          | (626,565)          |
| <b>Total expenses from transactions</b>                        |       | <u>(1,567,886)</u> | <u>(1,422,606)</u> |
| <b>Net result from transactions – net operating balance</b>    |       | <u>24,979</u>      | <u>47,246</u>      |
| <b>Other economic flows included in net result</b>             |       |                    |                    |
| Net gain/(loss) arising from revaluation of long service leave |       | (3,337)            | 6,964              |
| <b>Total other economic flows included in net result</b>       |       | <u>(3,337)</u>     | <u>6,964</u>       |
| <b>Net result for the year</b>                                 |       | <u>21,642</u>      | <u>54,210</u>      |
| Other comprehensive income                                     |       | -                  | -                  |
| <b>Comprehensive result for the year</b>                       |       | <u>21,642</u>      | <u>54,210</u>      |

The above Comprehensive Operating Statement should be read in conjunction with the accompanying notes

**Victorian Pharmacy Authority**  
**Balance Sheet**

As at 30 June 2020

|  | Notes | 2020             | 2019             |
|--|-------|------------------|------------------|
|  |       | \$               | \$               |
| <b>Assets</b>                          |       |                  |                  |
| <b>Current assets</b>                  |       |                  |                  |
| Cash and cash equivalents              | 4     | 2,969,547        | 2,866,871        |
| Receivables and accrued revenue        | 5     | 21,479           | 15,044           |
| Prepayments                            |       | 26,140           | 2,165            |
| <b>Total current assets</b>            |       | <b>3,017,166</b> | <b>2,884,080</b> |
| <b>Non-current assets</b>              |       |                  |                  |
| Property, plant and equipment          | 10    | 499,802          | 14,408           |
| <b>Total non-current assets</b>        |       | <b>499,802</b>   | <b>14,408</b>    |
| <b>Total assets</b>                    |       | <b>3,516,968</b> | <b>2,898,488</b> |
| <b>Liabilities</b>                     |       |                  |                  |
| <b>Current liabilities</b>             |       |                  |                  |
| Fees received in advance               | 6     | 1,200,200        | 1,177,175        |
| Payables and accrued expenses          | 7     | 122,434          | 78,566           |
| Employee benefits and related on-costs | 8     | 136,444          | 126,085          |
| Borrowings                             | 13    | 62,579           | -                |
| <b>Total current liabilities</b>       |       | <b>1,521,657</b> | <b>1,381,826</b> |
| <b>Non-current liabilities</b>         |       |                  |                  |
| Employee benefits and related on-costs | 8     | 40,237           | 22,660           |
| Borrowings                             | 13    | 439,430          | -                |
| <b>Total non-current liabilities</b>   |       | <b>479,667</b>   | <b>22,660</b>    |
| <b>Total liabilities</b>               |       | <b>2,001,324</b> | <b>1,404,486</b> |
| <b>Net assets</b>                      |       | <b>1,515,644</b> | <b>1,494,002</b> |
| <b>Equity</b>                          |       |                  |                  |
| Contributed capital                    |       | 514,490          | 514,490          |
| Accumulated surplus                    |       | 1,001,154        | 979,512          |
| <b>Total equity</b>                    |       | <b>1,515,644</b> | <b>1,494,002</b> |

The above Balance Sheet should be read in conjunction with the accompanying notes.

**Victorian Pharmacy Authority**  
**Statement of Changes in Equity**

**For the financial year ended 30 June 2020**

|   | <b>2020</b>      | <b>2019</b>      |
|---|------------------|------------------|
|   | <b>\$</b>        | <b>\$</b>        |
| <b>Balance at beginning of the financial year</b> | 1,494,002        | 1,439,792        |
| Comprehensive result for the year                 | <u>21,642</u>    | <u>54,210</u>    |
| <b>Balance at end of the financial year</b>       | <u>1,515,644</u> | <u>1,494,002</u> |
| <br><b>Represented by:</b>                        |                  |                  |
| <b>Contributed capital</b>                        |                  |                  |
| <b>Balance at beginning of the financial year</b> | <u>514,490</u>   | <u>514,490</u>   |
| <b>Balance at end of the financial year</b>       | <u>514,490</u>   | <u>514,490</u>   |
| <br><b>Accumulated surplus</b>                    |                  |                  |
| <b>Balance at beginning of the financial year</b> | 979,512          | 925,302          |
| Comprehensive result for the financial year       | <u>21,642</u>    | <u>54,210</u>    |
| <b>Balance at end of the financial year</b>       | <u>1,001,154</u> | <u>979,512</u>   |

The above Statement of Changes of Equity should be read in conjunction with the accompanying notes.

**Victorian Pharmacy Authority**  
**Cash Flow Statement**

**For the financial year ended 30 June 2020**

|   | <b>Notes</b> | <b>2020</b>      | <b>2019</b>      |
|---|--------------|------------------|------------------|
|   |              | <b>\$</b>        | <b>\$</b>        |
| <b>Cash Flows from Operating Activities</b>                     |              |                  |                  |
| Operating grants from government                                |              | -                | 130,000          |
| Fees from registrants   |              | 1,609,455        | 1,429,895        |
| Payments to suppliers and employees                             |              | (1,464,845)      | (1,423,614)      |
| Net GST received/(paid)   |              | 8,498            | (5,618)          |
| Interest received   |              | 21,193           | 42,659           |
| Interest paid   |              | (13,012)         | -                |
| <b>Net cash flows from/ (used in) operating activities</b>      | <b>11</b>    | <b>161,289</b>   | <b>173,322</b>   |
| <b>Cash Flows from Investing Activities</b>                     |              |                  |                  |
| Payment for property, plant and equipment                       |              | -                | (1,323)          |
| Redemption of other financial assets                            |              | -                | 1,638,357        |
| <b>Net cash flows from/ (used in) investing activities</b>      |              | <b>-</b>         | <b>1,637,034</b> |
| <b>Cash Flows from Financing Activities</b>                     |              |                  |                  |
| Repayment of borrowings   |              | (58,613)         | -                |
| <b>Net cash flows from/ (used in) financing activities</b>      |              | <b>(58,613)</b>  | <b>-</b>         |
| <b>Net increase/(decrease) in cash and cash equivalents</b>     |              | <b>102,676</b>   | <b>1,810,356</b> |
| <b>Cash and cash equivalents at beginning of financial year</b> |              | <b>2,866,871</b> | <b>1,056,515</b> |
| <b>Cash and cash equivalents at end of financial year</b>       | <b>4</b>     | <b>2,969,547</b> | <b>2,866,871</b> |

The above Cash Flow Statement should be read in conjunction with the accompanying notes.

**For the Financial Year Ended 30 June 2020**

**1. Summary of significant accounting policies**

These annual financial statements represent the general purpose financial statements of the Victorian Pharmacy Authority (the Authority) for the year ended 30 June 2020. The purpose of the report is to provide users with information about the Authority's stewardship of the resources entrusted to it.

**(A) Statement of Compliance**

These financial statements are general-purpose financial statements that have been prepared in accordance with the *Financial Management Act 1994 (FMA)* and applicable Australian Accounting Standards (AASs), which include interpretations issued by the Australian Accounting Standards Board (AASB). They are presented in a manner consistent with the requirements of AASB 101 *Presentation of Financial Statements*.

The financial statements also comply with relevant Financial Reporting Directions (FRDs) issued by the Department of Treasury and Finance (DTF) and relevant Standing Directions (SDs) authorised by the Assistant Treasurer.

In complying with AASs, the Authority has, where relevant, applied those paragraphs applicable to not-for-profit entities. The annual financial statements were authorised for issue by the Authority on 8 September 2020.

**(B) Basis of accounting preparation and measurements**

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2020, and the comparative information for the year ended 30 June 2020.

The going concern basis was used to prepare the financial statements.

These financial statements are presented in Australian dollars, the functional and presentation currency of the Authority.

The financial statements, except for cash flow information, have been prepared using the accrual basis of accounting. Under the accrual basis, items are recognised as assets, liabilities, equity, income or expenses when they satisfy the definitions and recognition criteria for those items, that is they are recognised in the reporting period to which they relate, regardless of when the cash is received or paid.

The financial statements are prepared in accordance with the historical cost convention, except for property, plant and equipment, physical assets, which subsequent to acquisition, are measured at their fair value. Fair valuation assessments are made with sufficient regularity to ensure that the carrying amounts do not materially differ from their fair values.

Judgements, estimates and assumptions are required to be made about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on professional judgements derived from historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

**For the Financial Year Ended 30 June 2020**

**1. Summary of significant accounting policies (Cont.)**

Revisions to accounting estimates are recognised in the period in which the estimate is revised and also in future periods that are affected by the revision. Judgements and assumptions made by management in the application of AASs that have significant effect on the financial statements and estimates relate to:

- Fair value of property, plant and equipment (refer Note 1 (E))
- Assumptions for employee benefits based on the likely tenure of existing staff, patterns of leave claims, future salary movements and future discount rates (refer Note 1 (F)).

Consistent with AASB 13 *Fair Value Measurement*, the Authority determines the policies and procedures for recurring fair value measurements such as property, plant and equipment and financial instruments and for non-recurring fair value measurements such as non-financial physical assets held for sale, in accordance with the requirements of AASB 13 and the relevant Financial Reporting Directions.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities,
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable, and
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For the purpose of fair value disclosures, the Authority has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

In addition, the Authority determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

**(C) Reporting Entity**

The financial statements include all the controlled activities of the Authority.

Its principal address is:  
Level 2, 15-31 Pelham Street  
Carlton Victoria 3053.

A description of the nature of the Authority's operations and its principal activities is included in the report of operations, which does not form part of these financial statements.

The Authority is established under section 81 of the *Pharmacy Regulation Act 2010* (the Act) to regulate the ownership and operation of pharmacy businesses, pharmacy departments and pharmacy depots through the functions specified in section 82 of the Act. The Authority acts in the public interest to achieve a safe pharmacy system through its licensing, registration and monitoring activities.

For the purpose of section 102 of the Act, these financial statements correspond to the financial statements of the Victorian Pharmacy Authority Fund.

A state of emergency was declared in Victoria on 16 March 2020 due to the global coronavirus pandemic, known as COVID-19. A state of disaster was subsequently declared on 2 August 2020.

**For the Financial Year Ended 30 June 2020**

**1. Summary of significant accounting policies (Cont.)**

To contain the spread of the virus and to prioritise the health and safety of our communities various restrictions have been announced and implemented by the state government, which in turn has impacted the manner in which businesses operate, including the Authority.

In response, the Authority placed restrictions on non-essential office visitors, commenced remote inspections of registered premises and implemented work from home arrangements where appropriate.

**(D) Rounding**

All the amounts have been rounded to the nearest dollar, unless otherwise stated. Figures in the financial statements may not equate due to rounding.

**(E) Financial assets**

***Cash and cash equivalents***

Cash and cash equivalents comprise cash on hand and cash at bank, which are held for the purpose of meeting short term cash commitments rather than for investment purposes and are readily convertible to known amounts of cash with an insignificant risk of changes in value. Authority's surplus funds are held with CBS (Central Banking system).

***Receivables***

Receivables consist of:

- contractual receivables, which include debtors and accrued investment income; and
- statutory receivables, such as Goods and Services Tax (GST) input tax credits recoverable.

Receivables that are contractual are classified as financial instruments and categorised as loans and receivables. Statutory receivables are recognised and measured similarly to contractual receivables (except for impairment), but are not classified as financial instruments because they do not arise from a contract.

Receivables are recognised at fair value and subsequently assessed for any impairment.

***Impairment of financial assets***

At the end of each reporting period, the Authority assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. All financial instrument assets are subject to annual review for impairment.

Receivables are assessed for bad and doubtful debts on a regular basis. Bad debts considered as written off and allowances for doubtful receivables are expensed. Bad debt written off by mutual consent and allowances for doubtful debts are classified as 'other comprehensive income' in the net result. A provision for doubtful debts is recognised when there is objective evidence that the debts may not be collected. Bad debts are written off when identified.

***Property, plant and equipment***

Property, plant and equipment are brought to account initially at cost and subsequently measured at fair value, less accumulated depreciation and impairment. The fair value of property, plant and equipment is normally determined by reference to the asset's depreciated replacement cost. For the Authority's property, plant and equipment, existing depreciated historical cost is generally a reasonable proxy for depreciated replacement cost because of the short lives of the assets concerned.

**For the Financial Year Ended 30 June 2020**

**1. Summary of significant accounting policies (Cont.)**

The depreciable amount of the property, plant and equipment is calculated using the straight line method over their estimated useful lives. The estimated useful lives, residual and depreciation method are reviewed at the end of each annual reporting period and adjustments made where appropriate.

The depreciation rates used for each class of assets for current and prior years are:

|                                  |       |
|----------------------------------|-------|
| Office equipment                 | 36.0% |
| Furniture, fixtures and fittings | 10.0% |
| Building right of use            | 10.0% |

The following table indicates the expected useful lives of non-current assets on which depreciation charges are based.

|                        | <b>2020</b> | <b>2019</b> |
|------------------------|-------------|-------------|
| Office equipment       | 1-3 years   | 1-3 years   |
| Furniture and fittings | 5-10 years  | 5-10 years  |
| Building right-of-use  | 5-10 years  | n/a         |

***Right-of-use asset acquired by lessees (Under AASB 16 Leases from 1 July 2019) – Initial measurement***

The Authority recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost which comprises the initial amount of the lease liability adjusted for:

- any lease payments made at or before the commencement date less any lease incentive received; plus
- any initial direct costs incurred; and
- an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located.

***Right-of-use asset – Subsequent measurement***

The Authority depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The right-of-use assets are also subject to revaluation.

In addition, the right-of-use asset is periodically reduced by impairment losses, if any and adjusted for certain remeasurements of the lease liability.

***Impairment***

Property, plant and equipment are assessed annually for indications of impairment.

If there is an indication of impairment, the asset concerned is tested as to whether its carrying value exceeds its possible recoverable amount. Where an asset's carrying value exceeds its recoverable amount, the difference is written off as an expense except to the extent that the write down can be debited to an asset revaluation reserve applicable to that same class of asset.

If there is an indication that there has been reversal in the estimate of an asset's recoverable amount since the last impairment loss was recognised, the carrying amount shall be increased to its recoverable amount. This reversal of the impairment loss occurs only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised in prior years.

It is deemed that, in the event of the loss or destruction of an asset, the future economic benefits arising from the use of the asset will be replaced unless a specific decision to the contrary has been made. The recoverable amount for most assets is measured at the higher of depreciated replacement cost and fair value less costs to sell.

For the Financial Year Ended 30 June 2020

1. Summary of significant accounting policies (Cont.)

(F) Liabilities

**Payables**

Payables consist of:

- contractual payables, such as accounts payable. Accounts payable represent liabilities for goods and services provided to the Authority prior to the end of the financial year that are unpaid, and arise when the Authority becomes obliged to make future payments in respect of the purchase of those goods and services, and
- statutory payables, such as goods and services tax and fringe benefits tax payables.

Contractual payables are classified as financial instruments and are recognised at fair value. Statutory payables are recognised and measured similarly to contractual payables, but are not classified as financial instruments and not included in the category of financial liabilities, because they do not arise from a contract.

**Income received in advance**

The registration fees receipts relating to periods beyond the current financial year are recognised as a liability and have been disclosed as income received in advance.

**Employee benefits**

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave for services rendered to the reporting date.

**Wages, salaries and annual Leave**

Liabilities for wages and salaries, including non-monetary benefits and annual leave are recognised in the provision for employee benefits as 'current liabilities' because the Authority does not have the unconditional right to defer the settlement of the entitlements.

Depending on the expectation of the timing of settlement, liabilities for wages and salaries and annual leave are measured at:

- nominal value – if the Authority expects to wholly settle within 12 months; or
- present value – if the Authority does not expect to wholly settle within 12 months.

**Long service leave (LSL)**

LSL is recognised in the provision for employee benefits.

**Unconditional LSL** (representing 10 or more years of continuous service) is disclosed as a current liability even where the Authority does not expect to settle the liability within 12 months because the Authority does not have the unconditional right to defer the settlement of the entitlement should an employee take leave within 12 months.

The components of this current LSL liability are measured at:

- nominal value– component that the Authority expects to wholly settle within 12 months; and
- present value – component that the Authority does not expect to wholly settle within 12 months.

**Conditional LSL** (representing less than 10 years of continuous service) is disclosed as a non-current liability because there is an unconditional right to defer the settlement of the entitlement until the employee has completed the requisite years of service. This non-current LSL is measured at present value.

Any gain or loss following revaluation of the present value of non-current LSL liability is recognised in the "net result from transaction", except to the extent that a gain or loss arises due to changes in bond interest rates which is then recognised as other economic flow.

For the Financial Year Ended 30 June 2020

1. Summary of significant accounting policies (Cont.)

**On-costs**

Provision for on-costs (such as workers compensation and superannuation) are recognised together with the provision for employee benefits.

**(G) Income recognition**

**Premises registration and business licence fees**

Premises registration and business licence fees runs from 1 July to 30 June, with registration and licence fees payable annually in advance. Only those registration and licence that are attributable to the current financial year are recognised as revenue over time. Registration and licence payments that relate to future periods are shown in the Statement of Financial Position as fees received in advance under the heading of current liabilities – contract liabilities

**Other revenue-generating activities**

Revenue from other contracts with customers is transferred at a point in time when performance obligations are satisfied by transferring promised services to customers. Payment is due from customers within 30 days of invoicing.

**Previous Accounting Policy for 30 June 2019**

Income is recognised in accordance with AASB 118 Revenue to the extent that it is probable that the economic benefits will flow to the Authority and the income can be reliably measured at fair value. Unearned income at reporting date is reported as income in advance, (refer Note 1 (F)).

Amounts disclosed as revenue are, where applicable, net of returns, allowances and duties and taxes.

**Interest**

Interest income on investments and cash holdings are recognised as interest received in this period.

**Other income**

Other income includes sale of pharmacy premises register.

**(H) Expenses Recognition**

Expenses are recognised as they are incurred and reported in the financial year to which they relate.

**Employee expenses**

These expenses include costs related to employment (other than superannuation which is accounted for separately) including wages and salaries, leave entitlements, redundancy payments and WorkCover premiums.

**Defined contribution superannuation plans**

Contributions to defined contribution superannuation plans are expensed when incurred. The Authority has not incurred any expenses in relation to defined benefit contribution plans.

**Other operating expenses**

Other operating expenses generally represents the day to day running costs incurred in normal operations.

**Rental expenses**

Expense associated with the outgoings of the office building.

**Other economic flows included in net result**

Other economic flows are changes in the volume or value of an asset or liability that do not result from transactions.

Other gains/(losses) from economic flows include the gain or losses from the revaluation of present value of the long service leave liability due to changes in wage inflation rate and discount rate.

**For the Financial Year Ended 30 June 2020**

**1. Summary of significant accounting policies (Cont.)**

***Income taxes***

Tax effect accounting has not been applied as the Authority is exempt from income tax under Section 50-25 of the *Income Tax Assessment Act 1997*.

**(I) Goods and Services Tax (GST)**

Income, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from Australian Taxation Office (ATO). In this case, the GST payable is recognised as part of the cost of acquisition of the assets or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO, are presented as operating cash flow.

Commitments for expenditure and contingent assets and liabilities are also stated inclusive of GST.

**(J) Equity**

***Contributed capital***

Consistent with the requirements of AASB 1004 *Contributions*, contributions by owners (that is, contributed capital and its repayment) are treated as equity transactions and, therefore, do not form part of the income and expenses of the Authority.

**(K) Financial instruments**

Financial instruments arise out of contractual agreements that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Where relevant, for note disclosure purposes, a distinction is made between those financial assets and financial liabilities that meet the definition of financial instruments in accordance with AASB 132 *Financial Instruments: Presentation* and those that do not.

**(L) Leases**

All leases are recognised on the balance sheet, with the exception of low value leases (less than \$10,000 AUD) and short term leases of less than 12 months. The Authority leases the building and IT equipment. The building lease contract is typically made for fixed period of 1-5 years with an option to renew the lease after that date. Lease payments for building is recognised every five years to reflect market rentals.

**Recognition and measurement of leases as a lessee (under AASB 16 from 1 July 2019)**

***Lease Liability – initial measurement***

The lease liability is initially measured at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily determinable or the Authority's incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments (including in-substance fixed payments) less any lease incentive receivable;
- variable payments based on an index or rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- payments arising from purchase and termination options reasonably certain to be exercised.

**For the Financial Year Ended 30 June 2020**

**1. Summary of significant accounting policies (Cont.)**

***Lease Liability – subsequent measurement***

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

***Short-term leases and leases of low-value assets***

The Authority has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

***Presentation of right-of-use assets and lease liabilities***

The Authority presents right-of-use assets as 'property plant equipment' in the balance sheet. Lease liabilities are presented as 'Borrowings' in the balance sheet.

**(M) Commitments**

Commitments for future expenditure include operating commitments arising from contracts. These commitments are disclosed by way of note (refer to Note 14) at their nominal value and are inclusive of the GST payable. In addition, where it is considered appropriate and provides additional relevant information to users, the net present value of significant individual projects are stated. These future expenditures cease to be disclosed as commitments once the related liabilities are recognised in the balance sheet.

**(N) Contingent assets and contingent liabilities**

Contingent assets and contingent liabilities are not recognised in the balance sheet, but are disclosed by way of a note (refer to Note 17) and, if quantifiable, are measured at nominal value. Contingent assets and contingent liabilities are presented inclusive of GST receivable or payable respectively.

**(O) Corporate structure**

The Victorian Pharmacy Authority is a statutory body established under the *Pharmacy Regulation Act 2010*.

**(P) Comparative figures**

Where necessary, the previous year's figures have been re-classified to facilitate comparison.

**(Q) Events after the reporting period**

There have been no events after the reporting period that would require disclosure in the financial report.

**For the Financial Year Ended 30 June 2020**

**1. Summary of significant accounting policies (Cont.)**

**(R) New and amended standards adopted by the Authority**

**Leases**

The Authority has applied AASB 16 with a date of initial application of 1 July 2019.

The Authority has elected to apply AASB 16 using the modified retrospective approach, as per the transitional provisions of AASB 16 for all leases for which it is a lessee. The cumulative effect of initial application is recognised in retained earnings as at 1 July 2019. Accordingly, the comparative information presented is not restated and is reported under AASB 117 and related interpretations.

Previously, the Authority determined at contract inception whether an arrangement is or contains a lease under AASB 117 and Interpretation 4 *Determining whether an arrangement contains a Lease*. Under AASB 16, the Authority assesses whether a contract is or contains a lease based on the definition of a lease as explained in note (L)

On transition to AASB 16, the Authority has elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied AASB 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under AASB 117 and Interpretation 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under AASB 16 was applied to contracts entered into or changed on or after 1 July 2019.

**Leases classified as operating leases under AASB 117**

As a lessee, the Authority previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Authority. Under AASB 16, the Authority recognises right-of-use assets and lease liabilities for all leases except where exemption is availed in respect of short-term and low-value leases.

On adoption of AASB 16, the Authority recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of AASB 117. These liabilities were measured at the present value of the remaining lease payments, discounted using the Authority's incremental borrowing rate as of 1 July 2019. On transition, right-of-use assets are measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 30 June 2019.

The Authority has elected to apply the following practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 117:

- Applied a single discount rate to a portfolio of leases with similar characteristics;
- Adjusted the right-of-use assets by the amount of AASB 137 onerous contracts provision immediately before the date of initial application, as an alternative to an impairment review;
- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term;
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

For leases that were classified as finance leases under AASB 117, the carrying amount of the right-of-use asset and lease liability at 1 July 2019 are determined as the carrying amount of the lease asset and lease liability under AASB 117 immediately before that date.

**For the Financial Year Ended 30 June 2020**

**1. Summary of significant accounting policies (Cont.)**

**Impacts on financial statements**

On transition to AASB 16, the Authority recognised \$560 thousand of right-of-use assets and \$560 thousand of lease liabilities.

When measuring lease liabilities, the Authority discounted lease payments using its incremental borrowing rate at 1 July 2019 which is fixed rate at 3.5 per cent.

|   | <b>1 July 2019</b> |
|---|--------------------|
| Total operating lease commitments disclosed at 30 June 2019 | 152,724            |
| Finance lease liabilities as at 30 June 2019                | 408,851            |
| <b>Recognition exemption for:</b>                           |                    |
| Lease of low-value assets                                   | (953)              |
| <b>Lease liabilities recognised at 1 July 2019</b>          | <b>560,622</b>     |

**Revenue from Contracts with Customers**

In accordance with FRD 121 requirements, The Authority has applied the transitional provision of AASB 15, under modified retrospective method. Under this transition method, The Authority applied this standard retrospectively only to contracts that are not 'completed contracts' at the date of initial application. No adjustments were required. Comparative information has not been restated.

Note 2 Income from Transactions includes details about the transitional application of AASB 15 and how the standard has been applied to revenue transactions.

**Income of Not-for-Profit Entities**

In accordance with FRD 122 requirements, The Authority has applied the transitional provision of AASB 1058, under modified retrospective method with the cumulative effect of initially applying this standard against the opening retained earnings at 1 July 2019. Under this transition method, The Authority applied this standard retrospectively only to contracts and transactions that are not completed contracts at the date of initial application. Comparative information has not been restated.

Note 2 Income from Transaction includes details about the transitional application of AASB 1058 and how the standard has been applied to revenue transactions.

The adoption of AASB 1058 did not have an impact on other Comprehensive Income and the Statement of Cash Flows for the financial year.

**Transition Impact of Financial Statements**

This note explains the impact of the adoption of the following new accounting standards for the first time, from 1 July 2019:

- AASB 15 Revenue from Contracts with Customers;
- AASB 1058 Income of Not-for-Profit Entities; and
- AASB 16 Leases.

**Victorian Pharmacy Authority**  
**Notes to the Financial Statements**

**For the Financial Year Ended 30 June 2020**

**1. Summary of significant accounting policies (Cont.)**

Impact on Balance Sheet due to the adoption of AASB 15, AASB 1058 and AASB 16 is illustrated with the following reconciliation between the restated carrying amounts at 30 June 2019 and the balances reported under the new accounting standards (AASB 15) at 1 July 2019.

| <b>Balance Sheet</b>               |       |                            |  |                                       |
|------------------------------------|-------|----------------------------|--|---------------------------------------|
|                                    | Notes | Balance at<br>30 June 2019 | Impact of New<br>Accounting<br>Standards AASB<br>1058 & 16 | Restated<br>Balance as<br>1 July 2019 |
| Property, Plant and Equipment      | 10    | 14,408                     | 560,622  | 575,030                               |
| <b>Total Impact on Assets</b>      |       | <b>14,408</b>              | <b>560,622</b>   | <b>575,030</b>                        |
| Payables                           |       | 78,566                     | -  | 78,566                                |
| Fees received in advance           | 6     | 1,177,175                  | -  | 1,177,175                             |
| Borrowings                         |       | -                          | 560,622  | 560,622                               |
| <b>Total Impact on Liabilities</b> |       | <b>1,255,741</b>           | <b>560,622</b>   | <b>1,816,363</b>                      |
| Accumulated Surplus/(Deficits)     |       | 979,512                    | -  | 979,512                               |
| <b>Total Impact on Equity</b>      |       | <b>979,512</b>             | <b>-</b>   | <b>979,512</b>                        |

For the Financial Year Ended 30 June 2020

1. Summary of significant accounting policies (Cont.)

(S) Australian Accounting Standards issued that are not yet effective

Certain new and revised accounting standards have been issued but not effective for the 2019-2020 reporting period. The Department of Treasury and Finance (DTF) assesses the impact of all these new standards and advises the Department of Health and Human Services of their applicability and early adoption where applicable.

| <b>Standard / Interpretation</b>  | <b>Summary</b>   | <b>Standard applicable for annual reporting periods beginning on</b> | <b>Expected Impact on the Authority financial statements</b>                     |
|---|--|--|--|
| ASB 2018-7<br><i>Amendments to Australian Accounting Standards – Definition of Material</i> | This Standard principally amends AASB 101 <i>Presentation of Financial Statements</i> and AASB 108 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> . The amendments refine and clarify the definition of material in AASB 101 and its application by improving the wording and aligning the definition across AASB Standards and other publications. The amendments also include some supporting requirements in AASB 101 in the definition to give it more prominence and clarify the explanation accompanying the definition of material. | 1 January 2020   | This standard is not expected to have a significant impact on the public sector. |
| AASB 17 <i>Insurance Contracts</i> .  | The new Australian standard seeks to eliminate inconsistencies and weakness in existing practices by providing a single principle based framework to account for all types of insurance contracts, including reissuance contract that an insurer holds. It also provides requirements for presentation and disclosure to enhance comparability between entities.<br><br>This standard currently does not apply to the non-for-profit public sector entities.   | 1 January 2021   | Nil impact, standards does not apply to non-for-profit entities.                 |

**Victorian Pharmacy Authority**  
**Notes to the Financial Statements**

**For the Financial Year Ended 30 June 2020**

**1. Summary of significant accounting policies (Cont.)**

| <b>Standard / Interpretation</b>  | <b>Summary</b>  | <b>Standard applicable for annual reporting periods beginning on</b>                                     | <b>Expected Impact on the Authority financial statements</b>                     |
|---|---|--|--|
| AASB 2020-1<br><i>Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current</i> | This standard amends AASB101 to clarify requirements for presentation of liabilities in the statement of financial position as current or non-current. A liability is classified as non-current if an entity has the right at the end of the reporting period to defer settlement of the liability for at least 12 months after the reporting period. The meaning of settlement of liability is also clarified. | 1 January 2022. However, ED301 has been issued with the intention to defer application to 1 January 2023 | This standard is not expected to have a significant impact on the public sector. |

**AASB Amending Standards**

In addition to the new standards above, the AASB has issued a list of other amending standards that are not effective for the 2019-20 reporting period. In general, these amending standards include editorial and references that are expected to have insignificant impacts on public sector reporting.

**Victorian Pharmacy Authority**  
**Notes to the Financial Statements**

**For the Financial Year Ended 30 June 2020**

|   | <b>2020</b>      | <b>2019</b>      |
|---|------------------|------------------|
|   | <b>\$</b>        | <b>\$</b>        |
| <b>2. Income from transactions</b>                    |                  |                  |
| <b>Income from operating activities</b>               |                  |                  |
| Premises registration and business licence fees       | 1,342,767        | 1,158,267        |
| Application for licence to carry on pharmacy business | 153,595          | 79,830           |
| Approval of pharmacies                                | 74,410           | 57,145           |
| Other operating revenue                               | 900              | 1,951            |
| One off grant from government                         | -                | 130,000          |
| <b>Total income from operating activities</b>         | <b>1,571,672</b> | <b>1,427,193</b> |
| <b>Income from non-operating activities</b>           |                  |                  |
| Interest  | 21,193           | 42,659           |
| <b>Total income from non-operating activities</b>     | <b>21,193</b>    | <b>42,659</b>    |
| <b>Total Income from transactions</b>                 | <b>1,592,865</b> | <b>1,469,852</b> |

***Impact of COVID-19 on revenue and income***

As indicated at Note 1, the Authority's revenue is mainly from Pharmacy premises registration, business licences and applications, which has not been impacted by the COVID-19 pandemic.

***Government grants***

The Authority did not receive any ongoing government grants. One off grant was received during last financial year to implement an audit program of pharmacy business ownership and commercial arrangements.

**Victorian Pharmacy Authority**  
**Notes to the Financial Statements**

**For the Financial Year Ended 30 June 2020**

|  | <b>2020</b>      | <b>2019</b>      |
|--|------------------|------------------|
|  | <b>\$</b>        | <b>\$</b>        |
| <b>3. Expenses from transactions</b>           |                  |                  |
| Salaries and wages                             | 754,498          | 644,300          |
| On-costs                                       | 63,558           | 60,587           |
| Workcover premium                              | 3,810            | 3,936            |
| <b>Total employee expenses</b>                 | <b>821,866</b>   | <b>708,823</b>   |
| Finance costs                                  | 13,012           | -                |
| <b>Total finance costs</b>                     | <b>13,012</b>    | <b>-</b>         |
| Other administrative expenses                  | 56,815           | 84,752           |
| <b>Total other administrative expenses</b>     | <b>56,815</b>    | <b>84,752</b>    |
| Audit fees                                     | 13,400           | 13,000           |
| Authority member fees and expenses             | 38,966           | 36,825           |
| Bank fees                                      | 13,831           | 11,264           |
| Car expenses – Inspectorial                    | 35,193           | 47,508           |
| Consulting fees                                | 15,005           | 41,600           |
| Consulting fees - other                        | 75,884           | 35,471           |
| Expenses related to leases of low value assets | 8,678            | -                |
| Insurance                                      | 27,393           | 3,862            |
| Legal expenses                                 | 140,101          | 280,847          |
| Legal expenses - other                         | 127,732          | 22,548           |
| Maintenance contracts                          | 60,372           | 43,760           |
| Postage  | 2,409            | 2,546            |
| Printing                                       | 1,627            | 1,024            |
| Rent - outgoings                               | 18,322           | 15,029           |
| Rental of premises                             | -                | 53,500           |
| Repairs and maintenance                        | 5,126            | 4,140            |
| Subscriptions                                  | 6,084            | 3,420            |
| Telephone                                      | 6,489            | 6,161            |
| Web site maintenance                           | 4,353            | 4,060            |
| <b>Total other operating expenses</b>          | <b>600,965</b>   | <b>626,565</b>   |
| Depreciation (refer Note 10)                   | 75,228           | 2,466            |
| <b>Total depreciation and amortisation</b>     | <b>75,228</b>    | <b>2,466</b>     |
| <b>Total Expenses from transactions</b>        | <b>1,567,886</b> | <b>1,422,606</b> |

***Impact of COVID-19 on expenses***

As indicated at Note 1, the Authority's daily activities were impacted by the pandemic. This resulted in direct and indirect costs being incurred, such as purchase of extra IT equipment, communication equipment and home office equipment costing less than \$10,000.

**Victorian Pharmacy Authority**  
**Notes to the Financial Statements**

**For the Financial Year Ended 30 June 2020**

|   | <b>2020</b>      | <b>2019</b>      |
|---|------------------|------------------|
|   | <b>\$</b>        | <b>\$</b>        |
| <b>4. Cash and Cash Equivalents</b>   |                  |                  |
| For the purposes of the Cash Flow Statement, cash and cash equivalents includes cash on hand and in banks, and short-term deposits which are readily convertible to cash on hand and are subject to an insignificant risk of change in value. |                  |                  |
| Cash at Bank  | 978,985          | 897,050          |
| Cash at bank - Central Banking System (CBS)   | 1,990,312        | 1,969,571        |
| Petty cash  | 250              | 250              |
| <b>Total Cash and Cash Equivalents</b>  | <b>2,969,547</b> | <b>2,866,871</b> |
| <b>5. Receivables</b>   |                  |                  |
| <b>Statutory</b>  |                  |                  |
| GST input tax credit recoverable  | 21,479           | 15,044           |
| <b>Total receivables</b>  | <b>21,479</b>    | <b>15,044</b>    |
| <b>6. Fees received in advance</b>  |                  |                  |
| Pharmacy premises registration fees   | 397,125          | 396,855          |
| Pharmacy business licence fees  | 803,075          | 780,320          |
|   | <b>1,200,200</b> | <b>1,177,175</b> |
| <b>Contract Liabilities income received in advance</b>  |                  |                  |
| Opening balance brought forward from 30 June 2019 adjusted for AASB 15  | \$1,177,175      |                  |
| Add: Payment received for performance obligation yet to be completed during period  | 1,200,200        |                  |
| Less: Income recognised in the reporting period for the completion of a performance obligation  | (1,177,175)      |                  |
| <b>Total contract liabilities</b>   | <b>1,200,200</b> |                  |
| <b>Represented by</b>   |                  |                  |
| Current contract liabilities  | 1,200,200        |                  |
| Non-current contract liabilities  | -                |                  |

Contract liabilities include consideration received in advance from customers in respect of Pharmacy premises registration and Pharmacy business licence fees. Revenue is recognised following the provision of the service.

**Victorian Pharmacy Authority**  
**Notes to the Financial Statements**

**For the Financial Year Ended 30 June 2020**

|   | <b>2020</b>    | <b>2019</b>    |
|---|----------------|----------------|
|   | <b>\$</b>      | <b>\$</b>      |
| <b>7. Payables and Accrues expenses</b>                   |                |                |
| <b>Contractual</b>  |                |                |
| Supplies and services (Trade Creditors)                   | 40,803         | 35,652         |
| Accrued expenses  | 67,585         | 29,237         |
| <b>Statutory</b>  |                |                |
| PAYG payable  | 14,046         | 13,677         |
| <b>Total payables</b>                                     | <b>122,434</b> | <b>78,566</b>  |
| <b>8. Employee Benefits and Related on-costs</b>          |                |                |
| <b>Current Provisions</b>                                 |                |                |
| <b>Annual leave</b>                                       |                |                |
| Unconditional and expected to be settled within 12 months | 25,940         | 18,360         |
| <b>Long service leave</b>                                 |                |                |
| Unconditional and expected to be settled within 12 months | 37,293         | 20,839         |
| Unconditional and expected to be settled after 12 months  | 56,823         | 71,837         |
| <b>Provisions for on-cost</b>                             |                |                |
| Unconditional and expected to be settled within 12 months | 10,368         | 7,438          |
| Unconditional and expected to be settled after 12 months  | 6,020          | 7,611          |
| <b>Total current provisions for employee benefits</b>     | <b>136,444</b> | <b>126,085</b> |
| <b>Non-current provisions</b>                             |                |                |
| Employee benefits   | 36,382         | 20,489         |
| On-costs  | 3,855          | 2,171          |
| <b>Total non-current provisions</b>                       | <b>40,237</b>  | <b>22,660</b>  |
| <b>Total provisions</b>                                   | <b>176,681</b> | <b>148,745</b> |
| <b>Reconciliation of annual and long service leave</b>    |                |                |
| Current employee benefits and related on-costs            | 136,444        | 126,085        |
| Non-current employee benefits and related on-costs        | 40,237         | 22,660         |
| <b>Total</b>  | <b>176,681</b> | <b>148,745</b> |
| <b>Movement in long service leave provisions</b>          |                |                |
| <b>Balance at start of year</b>                           | 125,154        | 151,472        |
| Additional provision recognised                           | 27,870         | 11,167         |
| Revaluations due to change in discount and inflation rate | (3,337)        | 6,964          |
| Reductions arising from payments                          | (5,361)        | (44,449)       |
| <b>Balance at end of year</b>                             | <b>144,326</b> | <b>125,154</b> |

**Victorian Pharmacy Authority**  
**Notes to the Financial Statements**

**For the Financial Year Ended 30 June 2020**

**9. Superannuation**

Details in relation to superannuation funds are as follows:

- (a) The Authority contributes to a number of defined contribution funds on behalf of its employees. There are no superannuation contribution liabilities to the funds at balance date.
- (b) The amount of total contributions by the Authority to the Funds during the year amounted to \$75,346. (2019: \$68,131). The detail of these contributions are below.

|                         | 2020          | 2019          |
|-------------------------|---------------|---------------|
|                         | \$            | \$            |
| MLC Superannuation Fund | 22,398        | 23,006        |
| Other Funds             | 52,948        | 45,125        |
|                         | <u>75,346</u> | <u>68,131</u> |

- (c) The basis for calculations is in accordance with the statutory requirement which specifies that contributions of the Authority are calculated as a percentage of the employees' salary. The table below indicates the range of contributions to the superannuation fund.

| <u>Superannuation Fund</u> | <u>Employer Contribution Level</u> |
|----------------------------|------------------------------------|
| MLC                        | 9.50 - 14.50%                      |
| Others                     | 9.50 - 14.50%                      |

**10. Property, Plant and Equipment**

**(a) Gross Carrying amount and accumulation depreciation**

|  | Gross carrying amount \$ |               | Accumulated Depreciation \$ |                 | Net carrying amount \$ |               |
|--|--------------------------|---------------|-----------------------------|-----------------|------------------------|---------------|
|  | 2020                     | 2019          | 2020                        | 2019            | 2020                   | 2019          |
| Office equipment at fair value   | 4,892                    | 4,892         | (4,377)                     | (3,901)         | 515                    | 991           |
| Furniture at fair value  | 21,100                   | 21,100        | (9,434)                     | (7,683)         | 11,666                 | 13,417        |
| Building – right of use (a)  | 560,622                  | -             | (73,001)                    | -               | 487,621                | -             |
| <b>Total Property, Plant and Equipment</b>                               | <b>586,614</b>           | <b>25,992</b> | <b>(86,812)</b>             | <b>(11,584)</b> | <b>499,802</b>         | <b>14,408</b> |
| (a) AASB 16 Leases has been applied for the first time from 1 July 2019. |                          |               |                             |                 |                        |               |

|  | <b>Building right of use</b> |
|--|------------------------------|
| Opening balance – 1 July 2019 (b)  | 560,622                      |
| Additions  | -                            |
| Disposal   | -                            |
| Depreciation   | (73,001)                     |
| <b>Closing balance – 30 June 2020</b>  | <b>487,621</b>               |
| (b) This balance represents the initial recognition of right-of-use assets recorded on the balance sheet on 1 July 2019 (recognised under AASB 16 at 1 July 2019). |                              |

**Depreciation for the period**

| <b>Charge for the period</b> | <b>2020 \$</b> | <b>2019 \$</b> |
|------------------------------|----------------|----------------|
| Office equipment             | 476            | 715            |
| Furniture                    | 1,751          | 1,751          |
| Right-of-use Building        | 73,001         | -              |
| <b>Total depreciation</b>    | <b>75,228</b>  | <b>2,466</b>   |

For the Financial Year Ended 30 June 2020

10. Property, Plant and Equipment (cont.)

Reconciliation of movements in carrying amount of property, plant and equipment

|  | Office Equipment at fair value \$ |            | Furniture at fair value \$ |               | Right-of-use Building |          |
|--|-----------------------------------|------------|----------------------------|---------------|-----------------------|----------|
|  | 2020                              | 2019       | 2020                       | 2019          | 2020                  | 2019     |
| Opening balance  | 991                               | 383        | 13,417                     | 15,168        | -                     | -        |
| Recognition of right-of-use assets on initial Application of AASB 16 (a)   | -                                 | -          | -                          | -             | 560,622               | -        |
| Additions  | -                                 | 1,323      | -                          | -             | -                     | -        |
| Disposals  | -                                 | -          | -                          | -             | -                     | -        |
| Depreciation   | (476)                             | (715)      | (1,751)                    | (1,751)       | (73,001)              | -        |
| <b>Closing balance</b>   | <b>515</b>                        | <b>991</b> | <b>11,666</b>              | <b>13,417</b> | <b>487,621</b>        | <b>-</b> |
| (a) This balance represents the initial recognition of right-of-use assets recorded on the balance sheet on 1 July 2019 related to lease of office premises. |                                   |            |                            |               |                       |          |

Fair value: Non-financial physical assets

Fair value measurement hierarchy

|                                      | Carrying amount as at 30 June 2020 | Fair value measurement at end of reporting period using: (i) |          |               |
|--------------------------------------|------------------------------------|--|----------|---------------|
|                                      | \$                                 | Level 1  | Level 2  | Level 3       |
| <b>2020</b>                          |                                    |  |          |               |
| Office equipment                     | 515                                | -  | -        | 515           |
| Furniture                            | 11,666                             | -  | -        | 11,666        |
| <b>Total of assets at fair value</b> | <b>12,181</b>                      | <b>-</b>   | <b>-</b> | <b>12,181</b> |

|                                      | Carrying amount as at 30 June 2019 | Fair value measurement at end of reporting period using: (i) |          |               |
|--------------------------------------|------------------------------------|--|----------|---------------|
|                                      | \$                                 | Level 1  | Level 2  | Level 3       |
| <b>2019</b>                          |                                    |  |          |               |
| Office equipment                     | 991                                | -  | -        | 991           |
| Furniture                            | 13,417                             | -  | -        | 13,417        |
| <b>Total of assets at fair value</b> | <b>14,408</b>                      | <b>-</b>   | <b>-</b> | <b>14,408</b> |

(i) Classified in accordance with the fair value hierarchy

Reconciliation of level 3 fair value movements

|                        | Office Equipment \$ |            | Furniture \$  |               |
|------------------------|---------------------|------------|---------------|---------------|
|                        | 2020                | 2019       | 2020          | 2019          |
| Opening balance        | 991                 | 383        | 13,417        | 15,168        |
| Purchase/addition      | -                   | 1,323      | -             | -             |
| Transfer out/disposal  | -                   | -          | -             | -             |
| Depreciation           | (476)               | (715)      | (1,751)       | (1,751)       |
| <b>Closing balance</b> | <b>515</b>          | <b>991</b> | <b>11,666</b> | <b>13,417</b> |

**Victorian Pharmacy Authority**  
**Notes to the Financial Statements**

**For the Financial Year Ended 30 June 2020**

|   |                |                |
|---|----------------|----------------|
| <b>11. Reconciliation of net result for the year to Cash flow from operating activities</b> | <b>2020</b>    | <b>2019</b>    |
|   | <b>\$</b>      | <b>\$</b>      |
| Net result for the year   | 21,642         | 54,210         |
| <i>Add/(Less):</i>  |                |                |
| Depreciation  | 75,228         | 2,466          |
| <i>Movement in assets and liabilities</i>   |                |                |
| (Increase)/decrease in trade and other receivables  | (6,435)        | 5,681          |
| (Increase)/decrease in other assets   | (23,975)       | (41)           |
| Increase/(decrease) in trade and other payables   | 43,868         | 12,520         |
| Increase/(decrease) in fees in advance and other current liabilities                        | 23,025         | 127,021        |
| Increase/(decrease) in provision for employee entitlements                                  | 27,936         | (28,535)       |
|   | <b>161,289</b> | <b>173,322</b> |

**12. Remuneration of auditors**

**Victorian Auditor-General's office**

|   |        |        |
|---|--------|--------|
| Audit of the financial statements                       | 13,400 | 13,000 |
| No other amounts were received by the external auditors |        |        |

**13. Borrowings**

All borrowings are initially recognised at fair value of the consideration received, less directly attributable transaction costs. The measurement basis subsequent to initial recognition depends on whether The Authority has categorised its liability as either 'financial liabilities designated at fair value through profit or loss', or financial liabilities at 'amortised cost'.

Subsequent to initial recognition, interest bearing borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in the net result over the period of the borrowing using the effective interest method. Non-interest bearing borrowings are measured at 'fair value through profit or loss'.

**Borrowings – Lease liabilities**

**Current**

|                                |               |          |
|--------------------------------|---------------|----------|
| Lease liability                | 62,579        | -        |
| <b>Total current liability</b> | <b>62,579</b> | <b>-</b> |

**Non-current**

|                                    |                |          |
|------------------------------------|----------------|----------|
| Lease liability                    | 439,430        | -        |
| <b>Total Non-current liability</b> | <b>439,430</b> | <b>-</b> |

|                                |                |          |
|--------------------------------|----------------|----------|
| <b>Total Lease Liabilities</b> | <b>502,009</b> | <b>-</b> |
|--------------------------------|----------------|----------|

For the Financial Year Ended 30 June 2020

13. Borrowings – Lease liabilities (Cont.)

| Lease Liabilities                                       | Minimum Future<br>Lease payments |          | Present Value<br>minimum future<br>Lease payments |          |
|---|----------------------------------|----------|---|----------|
|   | 2020                             | 2019     | 2020  | 2019     |
|   | \$                               | \$       | \$  | \$       |
| <b>Finance leases</b>                                   |                                  |          |   |          |
| Repayment in relation to leases are payable as follows: |                                  |          |   |          |
| Not later than one year                                 | 74,133                           | -        | 62,579  | -        |
| Later than 1 year and not later than 5 year             | 323,384                          | -        | 294,231   | -        |
| Later than 5 years                                      | 148,088                          | -        | 145,199   | -        |
| Minimum lease payments                                  | 545,605                          | -        | 502,009   | -        |
| Less future finance charges                             | (43,596)                         | -        | -   | -        |
| <b>Total</b>  | <b>502,009</b>                   | <b>-</b> | <b>502,009</b>                                    | <b>-</b> |
| Included in the financial statements as:                |                                  |          |   |          |
| Current finance lease liability                         |                                  |          | 62,579  | -        |
| Non-current finance lease liability                     |                                  |          | 439,430   | -        |
| <b>Total</b>  |                                  |          | <b>502,009</b>                                    | <b>-</b> |

The fixed interest rate implicit in the finance lease is 3.50%

**Leases**

A lease is a right to use asset for an agreed period of time in exchange for payment. All leases are recognised on the balance sheet, with the exception of low value leases (less than \$10,000) and short term leases of less than 12 months.

14 Commitments for Expenditure

| Nominal amounts<br>2020                     | Less than<br>1 year | 1-5<br>years | 5+<br>years | Total (\$)    |
|---|---------------------|--------------|-------------|---------------|
| Other commitments payable - photocopier     | 2,521               | 6,303        | -           | 8,824         |
| Other commitments payable - IT equipment    | 7,823               | 10,432       | -           | 18,255        |
| <b>Total commitments (inclusive of GST)</b> |                     |              |             | <b>27,079</b> |
| Less GST recoverable                        |                     |              |             | (2,461)       |
| <b>Total commitments (exclusive of GST)</b> |                     |              |             | <b>24,618</b> |

**Victorian Pharmacy Authority**  
**Notes to the Financial Statements**

**For the Financial Year Ended 30 June 2020**

**14 Commitments for Expenditure (Cont.)**

| <b>Nominal amounts</b>                      | <b>Less than</b> | <b>1-5</b>   | <b>5+</b>    |                   |
|---|------------------|--------------|--------------|-------------------|
| <b>2019</b>                                 | <b>1 year</b>    | <b>years</b> | <b>years</b> | <b>Total (\$)</b> |
| Rental commitment payable (i)               | 60,909           | 106,038      | -            | 166,947           |
| Operating and lease commitments payable(ii) | 1,049            | -            | -            | 1,049             |
| <b>Total commitments (inclusive of GST)</b> |                  |              |              | <b>167,996</b>    |
| Less GST recoverable                        |                  |              |              | (15,272)          |
| <b>Total commitments (exclusive of GST)</b> |                  |              |              | <b>152,724</b>    |

(i) Rental commitment related to the ongoing lease of the office premises but not included in the balance sheet  
(ii) Operating and lease commitment related to lease of photocopy machine for 4 years and computer rental for 3 year.

**15. Responsible persons and executive officers**

In accordance with the Directions from the Assistant Treasurer under the *Financial Management Act 1994* (FMA) the following disclosures are made for the responsible persons for the reporting period

**(a) Responsible Ministers**

The Honourable Jenny Mikakos  
Minister for Health and Minister for Ambulance Services

**Period**  
01/07/19 - 30/06/2020

**(b) Authority Members & Accountable Officer**

|                   |                             |                     |
|-------------------|-----------------------------|---------------------|
| Authority Members | Mr David McConville (Chair) | 01/07/19 – 30/06/20 |
|                   | Mr Joey Calandra            | 01/07/19 – 13/08/19 |
|                   | Ms Casuarina Fersterer      | 01/07/19 – 30/06/20 |
|                   | Mr Brendon Moar             | 01/07/19 – 30/06/20 |
|                   | Ms Marie Ritchie            | 01/07/19 – 30/06/20 |
|                   | Ms Elizabeth Kennedy        | 01/07/19 – 30/06/20 |
|                   | Mr Divesh Sanghvi           | 28/04/20 – 30/06/20 |
| Registrar         | Mr Aaron Bawden             | 01/07/19 – 30/06/20 |

**Remuneration**

Remuneration received by the accountable officer during the reporting period was in the range:  
\$180,001 - \$190,000 (\$170,001 - \$180,000 in 2018-19)

**(c) Remuneration of Responsible Persons** The total annualised employee equivalent provides a measure of full time equivalent executive officers over the reporting period.

| <b>Income Band</b>                    | <b>Total Remuneration</b> |                  | <b>Base Remuneration</b> |                  |
|---------------------------------------|---------------------------|------------------|--------------------------|------------------|
|                                       | <b>2020</b>               | <b>2019</b>      | <b>2020</b>              | <b>2019</b>      |
|                                       | <b>No.</b>                | <b>No.</b>       | <b>No.</b>               | <b>No.</b>       |
| \$1 - 10,000                          | 6                         | 5                | 6                        | 5                |
| \$10,001 - \$20,000                   | 1                         | 1                | 1                        | 1                |
| \$130,001 - \$140,000                 | -                         | -                | -                        | -                |
| \$140,001 - \$150,000                 | -                         | -                | -                        | -                |
| \$150,001 - \$160,000                 | -                         | -                | -                        | 1                |
| \$160,001 - \$170,000                 | -                         | -                | 1                        | -                |
| \$170,001 - \$180,000                 | -                         | 1                | -                        | -                |
| \$180,001 - \$190,000                 | 1                         | -                | -                        | -                |
| Total number of executives            | 8                         | 7                | 8                        | 7                |
| Total annualised employee equivalents | 1.00                      | 1.00             | 1.00                     | 1.00             |
| <b>Total Remuneration</b>             | <b>\$226,243</b>          | <b>\$213,418</b> | <b>\$205,732</b>         | <b>\$186,342</b> |

Payments made to Authority Members are for sitting fees and the reimbursement of expenses necessarily incurred in the conduct of the Authority's activities. There are no other related party transactions.  
There were no payments to contractors with significant management responsibilities.

**Victorian Pharmacy Authority**  
**Notes to the Financial Statements**

**For the Financial Year Ended 30 June 2020**

**15. Responsible persons and executive officers (Cont.)**

**(d) Remuneration of executives**

The executive officer and the accountable officer is the Registrar (refer note 15 (b))

**(e) Related parties**

The Victorian Pharmacy Authority is a wholly owned and controlled entity of the State of Victoria.

Related parties of the Victorian Pharmacy Authority includes:

- all key management personnel and their close family members and personal business interests (controlled entities, joint ventures and entities they have significant influence over).
- all cabinet ministers and their close family members; and
- all departments and public sector entities that are controlled and consolidated into the whole of state consolidated financial statements.

Key management personnel of the Victorian Pharmacy Authority includes:

| <b>Key Management Personnel</b> | <b>Position title</b> |
|---------------------------------|-----------------------|
| Mr David McConville (Chair)     | Chair                 |
| Ms Casuarina Fersterer          | Authority member      |
| Mr Brendon Moar                 | Authority member      |
| Ms Marie Ritchie                | Authority member      |
| Ms Elizabeth Kennedy            | Authority member      |
| Mr Divesh Sanghvi               | Authority member      |
| Mr Aaron Bawden                 | Registrar             |

Remuneration comprises employee benefits in all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered, and is disclosed in the following categories.

**Short-term employee benefits** include amounts such as wages, salaries, annual leave or sick leave that are usually paid or payable on a regular basis, as well as non-monetary benefits such as allowances and free or subsidised goods or services.

**Post-employment benefits** include pensions and other retirement benefits paid or payable on discrete basis when employment ceased.

**Other long-term benefits** include long service leave, other long service benefits or deferred compensation

| <b>Compensation of KMPs</b>  | <b>2020</b>    | <b>2019</b>    |
|------------------------------|----------------|----------------|
|                              | <b>\$</b>      | <b>\$</b>      |
| Short term employee benefits | 205,867        | 193,320        |
| Post-employment benefits     | 16,372         | 16,359         |
| Other long-term benefits     | 4,004          | 3,739          |
| <b>Total</b>                 | <b>226,243</b> | <b>213,418</b> |

**Transactions and balances with key management personnel and other related parties**

Given the nature of the Authority's statutory obligation, no involvement in third party related transaction.

There were no related party transactions that involved key management personnel, their family close family members and their personal business interest. No provision has been required, nor any expenses recognised, for impairment of receivable from related parties.

**For the Financial Year Ended 30 June 2020**

## **16 Financial instruments**

### **(a) Financial Risk Management Objectives and Policies**

The Victorian Pharmacy Authority's principal financial instruments comprise of:

- Cash Assets,
- Receivables (excluding statutory receivables), and
- Payables (excluding statutory payables).

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in Note 1 to the financial statements.

The main purpose in holding financial instruments is to prudentially manage the Authority's financial risks within the government policy parameters.

The authority uses different methods to measure and manage the risks to which it is exposed. Primary responsibility for the identification and management of financial risk rests with the Authority's Audit and Risk committee.

### **Categorisation of financial instruments**

Details of each category has been disclosed either in the balance sheet or in the notes in accordance with AASB 9 *Financial Instruments*.

|                                    | <b>Carrying Amount<br/>2020</b> | <b>Carrying Amount<br/>2019</b> |
|------------------------------------|---------------------------------|---------------------------------|
| <b>Financial assets</b>            | \$                              | \$                              |
| Cash and cash equivalents          | 2,969,547                       | 2,866,871                       |
| <b>Total financial assets</b>      | <b>2,969,547</b>                | <b>2,866,871</b>                |
| <b>Financial liabilities</b>       |                                 |                                 |
| Payables – creditors               | 108,388                         | 64,889                          |
| <b>Total financial liabilities</b> | <b>108,388</b>                  | <b>64,889</b>                   |

### **(b) Credit Risk**

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it is entered into under a contract.

The Authority's credit risk arises mainly from cash and cash equivalents. The Authority does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered by the Authority

Credit risk is managed and reviewed regularly by the Authority. The Authority monitors the credit risk by actively assessing the rating quality and liquidity of counterparties and only utilising banks and financial institutions with a minimum 'AA' rating.

For the Financial Year Ended 30 June 2020

16. Financial instruments (Cont.)

Credit quality of contractual financial assets that are neither past due nor impaired

| 2020                      | Financial Institutions<br>(triple-A credit rating) | Government agencies<br>(triple-A credit rating) | Other<br>(double-A credit rating) | Other<br>(min triple-B credit rating) | Total \$         |
|---------------------------|--|---|-----------------------------------|---------------------------------------|------------------|
| <b>Financial assets</b>   |  |   |                                   |                                       |                  |
| Cash and cash equivalents | -  | -   | 2,969,547                         | -                                     | 2,969,547        |
| <b>Total</b>              | -  | -   | <b>2,969,547</b>                  | -                                     | <b>2,969,547</b> |
| <b>2019</b>               |  |   |                                   |                                       |                  |
| <b>Financial assets</b>   |  |   |                                   |                                       |                  |
| Cash and cash equivalents | -  | -   | 2,866,871                         | -                                     | 2,866,871        |
| <b>Total</b>              | -  | -   | <b>2,866,871</b>                  | -                                     | <b>2,866,871</b> |

The Authority's exposure to credit risk by ageing periods is set out in the following table. There are no material financial assets which are determined to be impaired at 30 June 20.

Ageing Analysis of Financial Assets as at 30 June

|                               | Carrying Amount  | Not Past Due and Not Impaired | Past Due But Not Impaired |            |                   |           | Impaired Financial Assets |
|-------------------------------|------------------|-------------------------------|---------------------------|------------|-------------------|-----------|---------------------------|
|                               |                  |                               | Less than 1 month         | 1-3 Months | 3 Months - 1 Year | 1-5 Years |                           |
| <b>2020</b>                   | <b>\$</b>        | <b>\$</b>                     | <b>\$</b>                 | <b>\$</b>  | <b>\$</b>         | <b>\$</b> | <b>\$</b>                 |
| <b>Financial assets</b>       |                  |                               |                           |            |                   |           |                           |
| Cash and cash equivalents     | 2,969,547        | 2,969,547                     | -                         | -          | -                 | -         | -                         |
| <b>Total financial assets</b> | <b>2,969,547</b> | <b>2,969,547</b>              | -                         | -          | -                 | -         | -                         |
| <b>2019</b>                   |                  |                               |                           |            |                   |           |                           |
| <b>Financial assets</b>       |                  |                               |                           |            |                   |           |                           |
| Cash and cash equivalents     | 2,866,871        | 2,866,871                     | -                         | -          | -                 | -         | -                         |
| <b>Total financial assets</b> | <b>2,866,871</b> | <b>2,866,871</b>              | -                         | -          | -                 | -         | -                         |

(c) Liquidity Risk

Liquidity risk is the risk that the Authority will not be able to meet its financial obligations as they fall due. The Authority's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient funding to meet its liabilities as and when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Authority's reputation.

The following table discloses the maturity analysis of contractual financial liabilities.

For the Financial Year Ended 30 June 2020

16. Financial instruments (Cont.)

Maturity Analysis of Financial Liabilities as at 30 June

|                                    | Carrying Amount | Nominal amount | Maturity Dates    |            |                  |           |
|------------------------------------|-----------------|----------------|-------------------|------------|------------------|-----------|
|                                    |                 |                | Less than 1 month | 1-3 Months | 3 Months- 1 Year | 1-5 Years |
| <b>2020</b>                        | <b>\$</b>       | <b>\$</b>      | <b>\$</b>         | <b>\$</b>  | <b>\$</b>        | <b>\$</b> |
| <b>Financial liabilities</b>       |                 |                |                   |            |                  |           |
| Payables <sup>(i)</sup>            | 108,388         | 108,388        | 108,388           | -          | -                | -         |
| <b>Total financial liabilities</b> | <b>108,388</b>  | <b>108,388</b> | <b>108,388</b>    | <b>-</b>   | <b>-</b>         | <b>-</b>  |
| <b>2019</b>                        |                 |                |                   |            |                  |           |
| <b>Financial liabilities</b>       |                 |                |                   |            |                  |           |
| Payables <sup>(i)</sup>            | 64,889          | 64,889         | 64,889            | -          | -                | -         |
| <b>Total financial liabilities</b> | <b>64,889</b>   | <b>64,889</b>  | <b>64,889</b>     | <b>-</b>   | <b>-</b>         | <b>-</b>  |

(i) Ageing analysis of financial liabilities exclude the types of statutory financial liabilities. (ie GST payable)

(d) Market Risk

The Authority's exposure to market risk is mainly through interest rate risk.

Exposure to interest rate risk arises primarily through the Authority's financial assets. For financial liabilities, the Authority mainly undertakes financial liabilities with relatively even maturity profiles.

The Authority has no exposure to currency risk and other market risk.

Cash flow interest rate risk is the risk that the future cashflows of financial instruments will fluctuate because of changes in market interest rate.

The carrying amounts of financial assets and liabilities that are exposed interest rate risks are outlined below.

Interest Rate Exposure of Financial Instrument

|                              | Weighted Average Effective Interest % | Carrying Amount \$ | Interest Rate Exposure |                           |                         |
|------------------------------|---------------------------------------|--------------------|------------------------|---------------------------|-------------------------|
|                              |                                       |                    | Fixed Interest rate \$ | Variable Interest rate \$ | Non Interest Bearing \$ |
| <b>2020</b>                  |                                       |                    |                        |                           |                         |
| <b>Financial assets</b>      |                                       |                    |                        |                           |                         |
| Cash and cash equivalents    | 0.61                                  | 2,969,547          | -                      | 2,969,547                 | -                       |
|                              |                                       | <b>2,969,547</b>   | <b>-</b>               | <b>2,969,547</b>          | <b>-</b>                |
| <b>Financial liabilities</b> |                                       |                    |                        |                           |                         |
| Payables                     |                                       | 108,388            | -                      | -                         | 108,388                 |
|                              |                                       | <b>108,388</b>     | <b>-</b>               | <b>-</b>                  | <b>108,388</b>          |

For the Financial Year Ended 30 June 2020

16. Financial instruments (Cont.)

| 2019                         | Weighted<br>Average<br>Effective<br>Interest<br>% | Carrying<br>Amount<br><br>\$ | Interest Rate                    |                                     | Exposure<br><br>Non<br>Interest<br>Bearing<br>\$ |
|------------------------------|---|------------------------------|----------------------------------|-------------------------------------|--|
|                              |   |                              | Fixed<br>Interest rate<br><br>\$ | Variable<br>Interest rate<br><br>\$ |  |
| <b>Financial assets</b>      |   |                              |                                  |                                     |  |
| Cash and cash equivalents    | 1.06  | 2,866,871                    | -                                | 2,866,871                           | -  |
|                              |   | <b>2,866,871</b>             | <b>-</b>                         | <b>2,866,871</b>                    | <b>-</b>   |
| <b>Financial liabilities</b> |   |                              |                                  |                                     |  |
| Payables                     |   | 64,889                       | -                                | -                                   | 64,889   |
|                              |   | <b>64,889</b>                | <b>-</b>                         | <b>-</b>                            | <b>64,889</b>                                    |

**Sensitivity Disclosure Analysis**

Taking into account past performance, future expectations, economic forecasts, and management's knowledge and experience of the financial markets, the Authority believes the following movements are 'reasonably possible' over the next 12 months.

- A parallel shift of +1% and -1% in market interest rates (AUD)

|                           | Carrying<br>Amount | Interest Rate Risk |                 |               |               |
|---------------------------|--------------------|--------------------|-----------------|---------------|---------------|
|                           |                    | -1%                |                 | +1%           |               |
|                           |                    | Profit             | Equity          | Profit        | Equity        |
| <b>2020</b>               | <b>\$</b>          | <b>\$</b>          | <b>\$</b>       | <b>\$</b>     | <b>\$</b>     |
| <b>Financial assets</b>   |                    |                    |                 |               |               |
| Cash and cash equivalents | 2,969,547          | (29,695)           | (29,695)        | 29,695        | 29,695        |
|                           |                    | <b>(29,695)</b>    | <b>(29,695)</b> | <b>29,695</b> | <b>29,695</b> |
| <b>2019</b>               |                    |                    |                 |               |               |
| <b>Financial assets</b>   |                    |                    |                 |               |               |
| Cash and cash equivalents | 2,866,871          | (28,668)           | (28,668)        | 28,668        | 28,668        |
|                           |                    | <b>(28,668)</b>    | <b>(28,668)</b> | <b>28,668</b> | <b>28,668</b> |

For the Financial Year Ended 30 June 2020

16 Financial instruments (Cont.)

(e) Fair Value

Financial instruments are required to be classified at fair value based upon the reference of the source of inputs used to derive their fair value. Fair value measurements recognised are categorised into the following levels:

Level 1: quoted prices in active markets,

Level 2: quoted prices in non-active markets and inputs other than quoted prices that are observable, either directly or indirectly, and

Level 3: inputs that are not based on observable market data.

The net fair value of all on-balance sheet monetary financial assets and financial liabilities approximates their carrying value. There are no off-balance sheet financial assets or financial liabilities at balance date.

The following table shows that the fair values of the contractual financial assets and liabilities are the same as the carrying amounts.

Comparison between carrying amount and fair value

|                                    | Carrying<br>Amount | Fair Value       | Carrying<br>Amount | Fair Value       |
|------------------------------------|--------------------|------------------|--------------------|------------------|
|                                    | 2020<br>\$         | 2020<br>\$       | 2019<br>\$         | 2019<br>\$       |
| <b>Financial assets</b>            |                    |                  |                    |                  |
| Cash and cash equivalents          | 2,969,547          | 2,969,547        | 2,866,871          | 2,866,871        |
| <b>Total financial assets</b>      | <b>2,969,547</b>   | <b>2,969,547</b> | <b>2,866,871</b>   | <b>2,866,871</b> |
| <b>Financial liabilities</b>       |                    |                  |                    |                  |
| Payables <sup>(i)</sup>            | 108,388            | 108,388          | 64,889             | 64,889           |
| <b>Total financial liabilities</b> | <b>108,388</b>     | <b>108,388</b>   | <b>64,889</b>      | <b>64,889</b>    |

(i) Financial liabilities exclude the types of statutory financial liabilities. (ie PAYG payable)

The Authority considers that the carrying amount of financial instrument assets and liabilities recorded in the financial statements to be a fair approximation of their fair values, because of the short-term nature of the financial instruments and the expectation that they will be paid in full.

There have been no transfers between levels during the period.

The fair values and net fair values of financial instrument assets and liabilities are determined as follows:

- The fair value of financial instrument assets and liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market prices, and
- The fair value of other financial instrument assets and liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

**For the Financial Year Ended 30 June 2020**

**17. Contingent assets and Contingent liabilities**

There is no contingent assets (2019: Nil) and no contingent liabilities (2019: Nil) as at balance sheet date.

**18. Events subsequent to balance date**

The COVID-19 pandemic has created unprecedented economic uncertainty. Actual economic events and conditions in the future may be materially different from those estimated by the Authority at the reporting date. As responses by government continue to evolve, management recognises that it is difficult to reliably estimate with any degree of certainty the potential impact of the pandemic after the reporting date on Authority, its operations, its future results and financial position. The state of emergency in Victoria was extended on 16 August 2020 until 13 September 2020 and the state of disaster still in place.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may affect the operations of the Authority the results of the operations or the state of affairs of the Authority in the future financial years. (2019: Nil).

For the Financial Year Ended 30 June 2020

19. Glossary of technical terms

The following is a summary of the major technical terms used in this report.

**Actuarial gains or losses on superannuation defined benefit plans** are changes in the present value of the superannuation defined benefit liability resulting from:

- (a) experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and
- (b) the effects of changes in actuarial assumptions.

**Administered item** generally refers to a department lacking the capacity to benefit from that item in the pursuit of the entity's objectives and to deny or regulate the access of others to that benefit.

**Amortisation** is the expense that results from the consumption, extraction or use over time of a non-produced physical or intangible asset. This expense is classified as an 'other economic flow'.

**Associates** are all entities over which an entity has significant influence but not control, generally accompanying a shareholding and voting rights of between 20 per cent and 50 per cent.

**Biological assets** may comprise commercial forests and also any living animal, plant or agricultural produce that is the harvested product of biological assets.

**Borrowings** refers to interest-bearing liabilities mainly raised from public borrowings raised through the Treasury Corporation of Victoria, lease liabilities, service concession arrangements and other interest-bearing arrangements. Borrowings also include non interest-bearing advances from government that are acquired for policy purposes.

**Commitments** include those operating, capital and other outsourcing commitments arising from non-cancellable contractual or statutory sources.

**Comprehensive result** is the amount included in the operating statement representing total change in net worth other than transactions with owners as owners.

**Controlled item** generally refers to the capacity of a department to benefit from that item in the pursuit of the entity's objectives and to deny or regulate the access of others to that benefit.

**Current grants** are amounts payable or receivable for current purposes for which no economic benefits of equal value are receivable or payable in return.

**Depreciation** is an expense that arises from the consumption through wear or time of a produced physical or intangible asset. This expense is classified as a 'transaction' and so reduces the 'net result from transaction'.

**Effective interest method** is the method used to calculate the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, where appropriate, a shorter period.

**Employee benefits expenses** include all costs related to employment including wages and salaries, fringe benefits tax, leave entitlements, redundancy payments, defined benefits superannuation plans, and defined contribution superannuation plans.

**Ex gratia expenses** mean the voluntary payment of money or other non-monetary benefit (e.g. a write off) that is not made either to acquire goods, services or other benefits for the entity or to meet a legal liability, or to settle or resolve a possible legal liability or claim against the entity.

**Finance lease** is a lease that transfers substantially all the risks and rewards incidental to ownership of an underlying asset.

**For the Financial Year Ended 30 June 2020**

**19. Glossary of technical terms (cont.)**

**Financial asset** is any asset that is:

- (a) cash;
- (b) an equity instrument of another entity;
- (c) a contractual right:
  - to receive cash or another financial asset from another entity; or
  - to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
- (d) a contract that will or may be settled in the entity's own equity instruments and is:
  - a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
  - a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

**Financial instrument** is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

**Financial liability** is any liability that is:

- (a) a contractual obligation:
  - to deliver cash or another financial asset to another entity; or
  - to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or
- (b) a contract that will or may be settled in the entity's own equity instruments and is:
  - a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or
  - a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

**Financial statements** in the Model report comprises:

- (a) a balance sheet as at the end of the period;
- (b) a comprehensive operating statement for the period;
- (c) a statement of changes in equity for the period;
- (d) a cash flow statement for the period;
- (e) notes, comprising a summary of significant accounting policies and other explanatory information;
- (f) comparative information in respect of the preceding period as specified in paragraph 38 of AASB 101 *Presentation of Financial Statements*; and
- (g) a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraphs 41 of AASB 101.

For the Financial Year Ended 30 June 2020

19. Glossary of technical terms (cont.)

**Grant expenses and other transfers** are transactions in which one unit provides goods, services, assets (or extinguishes a liability) or labour to another unit without receiving approximately equal value in return. Grants can either be operating or capital in nature.

While grants to governments may result in the provision of some goods or services to the transferor, they do not give the transferor a claim to receive directly benefits of approximately equal value. For this reason, grants are referred to by the AASB as involuntary transfers and are termed non-reciprocal transfers. Receipt and sacrifice of approximately equal value may occur, but only by coincidence. For example, governments are not obliged to provide commensurate benefits, in the form of goods or services, to particular taxpayers in return for their taxes.

Grants can be paid as general-purpose grants, which refer to grants that are not subject to conditions regarding their use. Alternatively, they may be paid as specific purpose grants, which are paid for a particular purpose and/or have conditions attached regarding their use.

**General government sector** comprises all government departments, offices and other bodies engaged in providing services free of charge or at prices significantly below their cost of production. General government services include those that are mainly non-market in nature, those that are largely for collective consumption by the community and those that involve the transfer or redistribution of income. These services are financed mainly through taxes, or other compulsory levies and user charges.

**Grants for on-passing** are grants paid to one institutional sector (e.g. a State general government entity) to be passed on to another institutional sector (e.g. local government or a private non-profit institution).

**Infrastructure systems** provide essential services used in the delivery of final services or products. They are generally a complex interconnected network of individual assets and mainly include sewerage systems, water storage and supply systems, and public transport assets owned by the State.

**Interest expense** represents costs incurred in connection with borrowings. It includes interest on advances, loans, overdrafts, bonds and bills, deposits, interest components of lease repayments, service concession financial liabilities and amortisation of discounts or premiums in relation to borrowings.

**Interest income** includes unwinding over time of discounts on financial assets and interest received on bank term deposits and other investments.

**Investment properties** are properties held to earn rentals or for capital appreciation or both. Investment properties exclude properties held to meet service delivery objectives of the State of Victoria.

**Joint ventures** are contractual arrangements between the Department and one or more other parties to undertake an economic activity that is subject to joint control and have rights to the net assets of the arrangement. Joint control only exists when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

**Leases** are rights conveyed in a contract, or part of a contract, the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

**Net acquisition of non-financial assets** (from transactions) are purchases (and other acquisitions) of non-financial assets less sales (or disposals) of non-financial assets less depreciation plus changes in inventories and other movements in non-financial assets. Includes only those increases or decreases in non-financial assets resulting from transactions and therefore excludes write offs, impairment write downs and revaluations.

**Net financial liabilities** is calculated as liabilities less financial assets, other than equity in public non-financial corporations (PNFC) and public financial corporations (PFC). This measure is broader than net debt as it includes significant liabilities, other than borrowings (e.g. accrued employee liabilities such as superannuation and long service leave entitlements). For the PNFC and PFC sectors, it is equal to negative net financial worth.

**Net financial worth** is equal to financial assets minus liabilities. It is a broader measure than net debt as it incorporates provisions made (such as superannuation but excluding depreciation and bad debts) as well as holdings of equity. Net financial worth includes all classes of financial assets and liabilities, only some of which are included in net debt.

For the Financial Year Ended 30 June 2020

19. Glossary of technical terms (cont.)

**Net gain on equity investments in other sector entities** [DTF only] measured at proportional share of the carrying amount of net assets/(liabilities) comprises the net gains relating to the equity held by the general government sector in other sector entities. It arises from a change in the carrying amount of net assets of the subsidiaries. The net gains are measured based on the proportional share of the subsidiary's carrying amount of net assets/(liabilities) before elimination of inter sector balances.

**Net lending/borrowing** is the financing requirement of government, calculated as the net operating balance less the net acquisition of non-financial assets. It also equals transactions in financial assets less transactions in liabilities. A positive result reflects a net lending position and a negative result reflects a net borrowing position.

**Net operating balance or net result from transactions** is a key fiscal aggregate and is revenue from transactions minus expenses from transactions. It is a summary measure of the ongoing sustainability of operations. It excludes gains and losses resulting from changes in price levels and other changes in the volume of assets. It is the component of the change in net worth that is due to transactions and can be attributed directly to government policies.

**Net result** is a measure of financial performance of the operations for the period. It is the net result of items of revenue, gains and expenses (including losses) recognised for the period, excluding those classified as 'other non-owner movements in equity'.

**Net worth** is calculated as assets less liabilities, which is an economic measure of wealth.

**Non-financial assets** are all assets that are not financial assets. It includes inventories, land, buildings, infrastructure, road networks, land under roads, plant and equipment, cultural and heritage assets, intangibles and biological assets such as commercial forests.

**Non-financial public sector** represents the consolidated transactions and assets and liabilities of the general government and PNFC sectors. In compiling statistics for the non-financial public sector, transactions and debtor/creditor relationships between sub-sectors are eliminated to avoid double counting.

**Non-produced assets** are assets needed for production that have not themselves been produced. They include land, subsoil assets, and certain intangible assets. Non-produced intangibles are intangible assets needed for production that have not themselves been produced. They include constructs of society such as patents.

**Operating result** is a measure of financial performance of the operations for the period. It is the net result of items of revenue, gains and expenses (including losses) recognised for the period, excluding those that are classified as 'other non-owner movements in equity'. Refer also to 'net result'.

**Other economic flows included in net result** are changes in the volume or value of an asset or liability that do not result from transactions. In simple terms, other economic flows are changes arising from market remeasurements. They include gains and losses from disposals, revaluations and impairments of non-current physical and intangible assets; fair value changes of financial instruments and agricultural assets; and depletion of natural assets (non-produced) from their use or removal.

**Other economic flows – other comprehensive income** comprises items (including reclassification adjustments) that are not recognised in net result as required or permitted by other Australian Accounting Standards. They include changes in physical asset revaluation surplus; share of net movement in revaluation surplus of associates and joint ventures; and gains and losses on remeasuring available-for-sale financial assets.

**Style conventions**

Figures in the tables and in the text have been rounded. Discrepancies in tables between totals and sums of components reflect rounding. Percentage variations in all tables are based on the underlying unrounded amounts.

The notation used in the tables is as follows:

|         |                          |
|---------|--------------------------|
| ..      | zero, or rounded to zero |
| (xxx.x) | negative numbers         |
| 200x    | year period              |
| 200x 0x | year period              |