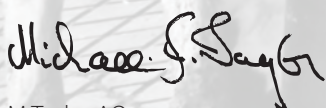




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In accordance with the *Financial Management Act 1994*, I am pleased to present Dairy Food Safety Victoria's Annual Report for the year ending 30 June 2016.



M Taylor AO  
Chair

18 August 2016

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## Chairs' foreword



The 2015–16 reporting year has been one of change for both Dairy Food Safety Victoria (DFSV) and the dairy industry.

In October a new Board term commenced with the appointment of Michael Blake, Helen Dornom, Josephine Davey and Julie Simons to the DFSV Board and the reappointment of Peter Moloney and Peter Bailey. This was followed in April 2016 with the appointment by Minister Pulford of a new Chair.

Each member of the Board brings a unique perspective, with individuals experienced in both the public and private sectors across the fields of food safety, science and technology, dairy product development, biotechnology, agricultural policy and governance.

2015–16 also heralds the commencement of a new five-year strategic plan. The new Board is now leading the implementation of that plan, continuing the work of the previous Board in setting DFSV's strategic direction and establishing strategies for achieving our objectives.

DFSV's licensing and regulatory system remains at the core of product safety and risk management for farms and factories and food safety continues to be recognised as a non-negotiable factor in securing ongoing access to export as well as domestic markets.

DFSV again met its primary objective of safeguarding public health and in 2015–16 there were no instances where a Victorian produced dairy product was linked to a foodborne illness outbreak.

This highlights the effectiveness of DFSV's regulatory approach in that every instance where there may have been a food safety issue the situation was resolved through the diligence of DFSV

and willingness of licensees to implement corrective actions. DFSV continues to actively monitor compliance requirements that control the risk posed by the sale of raw milk for human consumption.

Following an optimistic outlook this time last year, the 2015–16 reporting period proved to be a turbulent and challenging one for the industry, particularly for farmers.

Farm gate milk prices are subject to the volatility of global markets, and in recent months a significant drop in milk prices has severely affected many of our dairy farmer licensees.

DFSV is sensitive to the economic difficulties farmers are currently facing and aware of the impact of even a very small increase in the dairy licence fee and in May the DFSV Board made the decision not to increase farmer licence fees for the 2016–17 financial year.

The Board is very much aware of the inherent challenges in consistent delivery of safe, quality dairy products.

The combined skills and commitment of DFSV staff and the industry are integral to the results achieved.

We acknowledge the contribution of all Board members, past and present, and sincere thanks go to our CEO, Jennifer McDonald and all DFSV staff for their work over the year and effective management of food safety regulation through the day-to-day operations of DFSV.

A handwritten signature in black ink, reading "Michael J. Taylor".

**Mike Taylor AO**  
Chair

A handwritten signature in black ink, reading "Grant Davies".

**Grant Davies**  
Former Chair

# Chief Executive Officer's report



I am pleased to present my Chief Executive Officer's report covering the operation of Dairy Food Safety Victoria for the year ended 30 June 2016.

We have now completed the first year of a new five-year strategic plan. The strategic objectives and activities documented in this plan support DFSV's core responsibility for administering dairy food safety regulation to safeguard public health.

The key to achieving this objective is in maintaining industry compliance with DFSV regulatory requirements. While DFSV uses monitoring tools to identify non-compliance and takes appropriate enforcement action when incidents occur, a focus over the past year has been on promoting understanding of compliance requirements and providing information to support licensees to meet them.

The DFSV website is an important enabler of access to information to support regulatory compliance and build technical knowledge and expertise. Following extensive consultation with both internal and external stakeholders a new website was launched in March 2016. The information needs of the industry are central to the design of the website, which is structured to provide information, tailored for each licence type, on getting started in the industry and operating a licensed dairy business in Victoria. All aspects relevant to the production of safe dairy food are covered – the science, the regulation and technical knowledge.

New guidance materials published by DFSV during the year provide licensees with additional assistance with regulatory compliance. The *Dairy pathogen manual* outlines expected responses to the detection of pathogens in products and environments and the *Microbiological testing criteria – minimum testing requirements for manufacturers of dairy food products*, guides manufacturers on the appropriate frequency and types of microbiological testing required for different categories of dairy products.

The introduction in June 2016 of a series of seminars for dairy manufacturers aims to further support industry capability. The seminars will tackle common food safety issues in the production of dairy foods, with presentations by guest speakers with expert knowledge related to specific food safety issues.

A skilled and knowledgeable DFSV workforce is also an essential component of delivering effective regulation. A strong focus during the year was on building our own staff capability and competence, to ensure an appropriate level of skills and expertise to undertake their roles and exercise their authority with confidence. All DFSV's authorised officers participated in extensive training to complete a Certificate IV in Government (Investigation).

In order to track DFSV's performance against the expectations of industry, we commissioned a survey of our licensees in April 2016 to understand how our licensees view the regulatory and technical services we provide.

The results indicated a high level of confidence in DFSV's ability to deliver its regulatory responsibilities and satisfaction with the technical information and support services provided. We will continue to seek feedback from our licensees to monitor performance against this benchmark and to identify opportunities for improvement.

In closing, I would like to thank Grant Davies, the former Chair, and retired members of the Board for their commitment to the work of DFSV over a number of years and support to me since commencing in the role of CEO in 2014.

I welcome our new Chair and Board members and look forward to continuing to work with them to ensure safe production of dairy food in Victoria.

A handwritten signature in black ink, appearing to read 'Jennifer McDonald'.

**Jennifer McDonald**  
Chief Executive Officer

## About the Victorian dairy industry

With a sustained reputation for safety and quality, Victorian dairy products are enjoyed by both Australian and overseas consumers.

The Victorian dairy industry is a major agricultural sector and an important contributor to the national and state economies – with annual gross value of milk of approximately \$3.1 billion and dairy product exports of \$2.3 billion in 2014–2015. The industry also employs 20,000 people in dairy production and processing across the state.

The majority of Australian dairy farms are located in Victoria. More than 4,000 farms across three dairy regions: north, south-west and Gippsland, produce around 65 per cent of Australia's milk. In 2015–16 the total volume of milk produced in Victoria was 6.2 billion litres.

Dairy is Victoria's second largest export. The strong focus on export means profitability for the Victorian dairy industry is closely linked to world dairy commodity prices and exchange rates.

Victoria has been hit particularly hard by recent cuts to farmgate prices with potential for a drop in milk production in 2016–17.

So while the only certainty in the dairy industry is change, DFSV's role in maintaining the integrity of Victoria's dairy food safety system is a constant.

DFSV licenses all dairy businesses operating in Victoria; approving and auditing compliance with food safety programs to ensure state legislation and nationally agreed standards are maintained.

DFSV has more than 4500 licensees and over the course of a year conducts two audits of each manufacturing business, covering food safety requirements for both domestic and export markets. Through arrangements with contract auditors, more than 2000 farms are also audited each year.

DFSV regulates the Victorian dairy industry to safeguard public health. The effective implementation of the DFSV regulatory framework protects Victoria's reputation for producing safe, high quality dairy products and underpins market access.



# About Dairy Food Safety Victoria

## Vision

Product safety and integrity locally and globally for Victoria's dairy industry.

## Mission

To independently regulate dairy food safety.

## Values

### Respect

We value diverse opinions, strengths and ideas, and consider the feelings of others.

### Integrity

We are honest, open and transparent in our dealings with all stakeholders and will match our behaviours to our words.

### 'Can do'

We are always willing to help stakeholders and each other and strive to continually improve the way we work whilst remaining adaptable and open to change.

### Fairness

We are fair, objective and courteous in all dealings with industry, stakeholders and our employees.

## Charter and purpose

Dairy Food Safety Victoria (DFSV) is a statutory authority established by the Victorian Parliament under the *Dairy Act 2000*. DFSV reports through its Board to the Victorian Minister for Agriculture.

The Hon Jaala Pulford MP, Minister for Agriculture was the responsible minister during the period 1 July 2015 to 30 June 2016.

The objectives, functions and powers of DFSV are prescribed under Part 2, Sections 5–7 of the *Dairy Act 2000* as follows:

## Objectives of the Authority

The objectives of the Authority are to—

- (a) ensure that standards which safeguard public health are maintained in the Victorian dairy industry;
- (b) ensure that it performs its functions and exercises its powers efficiently and effectively.

## Functions of the Authority

The functions of the Authority are to—

- (a) establish, maintain and improve—
  - (i) the food safety standards of dairy food;
  - (ii) the standards of construction and hygiene of plant and equipment in dairy manufacturing premises;
  - (iii) the standards of maintenance, cleanliness and hygiene of dairy transport vehicles;
- (b) monitor and review the standards specified in paragraph (a);
- (c) approve and monitor the implementation of food safety programs;
- (d) administer the licensing system under Part 3 of the Act;
- (e) ensure that appropriately qualified persons are appointed as authorised officers;
- (f) fix and charge fees in respect of the carrying out of its functions or the exercise of its powers;
- (g) in consultation with the Secretary to the Department of Health or a municipal council, protect public health;
- (h) advise the Minister on matters relating to the administration of this Act;
- (i) carry out any other function that is conferred on the Authority by this or any other Act.

## Powers of the Authority

- (1) Subject to this Act, the Authority has all the powers necessary to enable it to perform its functions.
- (2) Without limiting its other powers, the Authority may—
  - (a) enter into agreements or arrangements with third parties for the provision of services to the Authority or for the provision of services by the Authority;
  - (b) fix and charge fees for carrying out its functions, and for the provision of its services including the services of its authorised officers;
  - (c) expend its funds in carrying out its functions and powers or in paying remuneration and allowances to its members.

# Performance report

In 2015–16 DFSV began implementing a new five-year strategic plan. The strategic directions articulated in the plan reflect the Victorian Government's expectations of DFSV and provided the framework for development of strategic objectives for the five years from 2015. DFSV's objectives, indicators, and progress on those indicators are outlined in this section of the report. This report is the first against this plan, and as such, performance reporting for this financial year sets the benchmark for comparing trends over time in subsequent annual reports.

## 1. Regulation objective

*To maintain industry compliance with DFSV regulatory requirements*

### Licensing system maintained

DFSV's core responsibility is to regulate the Victorian dairy industry to safeguard public health. This is achieved through industry compliance with regulatory requirements and enabled by an efficient and effective licensing system. DFSV licenses all dairy farmers, carriers, manufacturers and distributors that pass an initial inspection and have an approved food safety plan.

**Table 1:** Total licences by type at 30 June 2016

Licence	2016	2015
Manufacturer (bovine)	190	181
Manufacturer (sheep, goat and buffalo)	8	10
Farmer (bovine)	4,141	4,127
Farmer (sheep, goat and buffalo)	33	26
Milk broker	2	2
Distributor	109	107
Carrier	45	42
Vendor	2	2
<b>Total</b>	<b>4,530</b>	<b>4,497</b>

### Compliance monitoring

DFSV monitors licensee compliance with regulatory requirements by approving and auditing food safety programs.

Dairy manufacturer licensees are required to be audited at a minimum of every six months and audits of dairy farmer licensees at a minimum frequency of 24 months. During the reporting period 2,136 farm and 374 manufacturer audits were completed. Audits are conducted to determine whether or not licensees have complied with the requirements of their approved food safety program, and if the program is still adequate for the business being conducted.

DFSV takes action proportionate to the seriousness of any legislative non-compliance identified and the food safety risk.

### Product testing

In 2015–16 DFSV's expanded Product Surveillance Program commenced. Extensive microbiological testing as well as measurement of selected chemical parameters provide data on compliance with the Australia New Zealand Food Standards Code. The expanded program adds to existing data verifying effective implementation of food safety programs and provides verification of the food safety system. The additional analysis provides DFSV with enhanced data on food safety risk across the industry and informs technical support activities. Data from the program continues to demonstrate high levels of industry compliance with microbiological limits in the Food Standards Code.

For the 2015–16 period 2,975 dairy product samples were tested across 618 batches. Of these products, 12 tested positive for *E.coli* at a level greater than the Food Standards Code limit. The increase in positive results for *E.Coli* from six in 2014–15 can be partly attributed to the program redesign to align testing with the Food Standards Code to be five samples taken from the one batch as well as the increase in total number of tests conducted.

DFSV also coordinates the Australian Milk Residue Analysis (AMRA) survey. The national survey provides important verification of the effectiveness of Australian controls on agricultural and veterinary residues for market access purposes. The AMRA survey was again delivered by DFSV according to plan. There were no residues detected above the Australian Maximum Residue Limit (MRL) as specified in the Food Standards Code either in Victoria or at the national level. The survey was successfully audited by the Department of Agriculture and Water Resources and reviewed by the European Commission during the period.

### Export assurance services

DFSV continued to provide export assurance services to the Department of Agriculture and Water Resources for export registered manufacturers. The Department of Agriculture and Water Resources issues export certificates for Victorian dairy products based on recognition of DFSV's regulatory system.

The annual audit by the Department of Agriculture and Water Resources of DFSV's export audit and compliance management system resulted in the continued recognition of DFSV's systems to deliver export assurance services on its behalf.

# Performance report

## Key performance indicators:

Success	Performance indicators	2015–16
No foodborne illness outbreaks attributed to Victorian dairy products	Foodborne illness outbreaks	0 (zero)
	<b>Licensees subject to compliance enforcement actions</b>	<b>No. and (% of licensees)</b>
Industry compliance with regulatory requirements	Corrective action request (critical) – presents an imminent risk to food safety	2 (0.05%) farmers 7 (3.5%) manufacturers
	Increased audit frequency (enforcement audit)	2 (1%) Manufacturers
	Orders issued under the <i>Dairy Act 2000</i> or <i>Food Act 1984</i>	1 (0.03%) Farmer 1 (0.5%) Manufacturer
	Food safety program suspended or withdrawn	0 (0.0%)
	Dairy licence suspended or cancelled	0 (0.0%)
	Prosecution under the <i>Dairy Act 2000</i> or <i>Food Act 1984</i>	0 (0.0%)
		<b>Licensee dairy products found with a non-compliant contaminant</b>
	Pathogen* (organisms that can cause illness)	19 (11 %)
	Chemical	0 (0%)
	Allergens (undeclared)	1 (0.5%)
	Physical	8 (4 %)

\* All pathogen detections were appropriately managed by manufacturers with oversight of DFSV, with no resulting risk to public health.



## 2. Management of food safety incidents objective

*To protect public health through rapid and appropriate management of food safety incidents*

### Food safety risk assessments

Food safety risk assessments are conducted following an incident which has the potential to adversely impact on dairy food safety. Assessments are carried out by DFSV's Science and Industry Support team and responded to within 48 hours of an incident being reported. Nine farm-related chemical risk assessments were undertaken during the year to evaluate the risk associated with inadvertent ingestion of chemicals by dairy cows.

Five product-related microbial risk assessments were conducted in response to the presence of microorganisms at levels exceeding the microbiological criteria in the Australia New Zealand Food Standards Code (or the User Guide to Standard 1.6.1). The results of the risk assessments indicated no adverse food safety risks associated with releasing the food to market.

### Pathogen investigations

DFSV investigates pathogen notifications made under mandatory reporting requirements as well as detections from DFSV's Product Surveillance Program. All pathogen detections were managed through clearance programs implemented by manufacturers within approved food safety

programs, part of which includes a heightened testing regime for the pathogens in question. This is to verify that corrective actions have been effective and to prevent release of any subsequent contaminated product into the market. Three manufacturers also initiated precautionary product withdrawals or recalls.

### Consumer complaints

A total of 52 consumer complaints were received during the year, relating to 31 manufacturing sites. One illness complaint was referred to the Victorian Department of Health and Human Services and 11 extraneous matter complaints were investigated at eight manufacturing sites. The remaining non-regulatory complaints related to quality or labelling issues and complainants were referred to the respective manufacturers for follow-up.

### Emergency preparedness

To maintain a preparedness to respond to critical incidents DFSV conducted a program to establish, test, review and maintain response procedures and emergency protocols.

The DFSV *Risk Management Plan* was tested in August 2015 through a mock emergency scenario. Subsequent to this exercise, a *Critical Incident Response Plan* was developed to further establish procedures for DFSV's response to a critical incident from an external event and also from a business continuity point of view. DFSV will facilitate further training of DFSV's emergency response team and continue to test and improve DFSV's emergency preparedness.

### Key performance indicators:

Success	Performance indicators	Result 2015–16
Timely and proportionate response to food safety incidents	<b>Qualitative evaluation using feedback from manufacturers</b>	<b>% positive response</b>
	DFSV response was timely given the level of risk involved	85%
	The actions needed to address the incident were proportionate to the risks	81%

# Performance report

## 3. Reputation objective

*To be seen as a fair and effective regulator by all stakeholders*

### Auditor performance verification and training

DFSV complies with requirements of the National Food Safety Audit Policy (2006) and National Regulatory Food Safety Auditor Guidelines (2008).

Authorised officers receive training to enable them to deliver functions as required under the *Dairy Act 2000* and the *Food Act 1984*. In compliance with the Audit Policy, during the period 100 per cent of DFSV high-risk food safety auditors were verified, as were all DFSV approved farm auditors.

All DFSV authorised officers successfully completed training in Certificate IV in Government (Investigation). The course was designed to teach authorised officers safety in investigative situations and evidence gathering, brief writing, and evidence giving techniques. Ten days of coursework culminated in a mock-court scenario where officers gave evidence and were cross-examined.

### Stakeholder engagement

DFSV maintains a strategic framework for engagement and communication with its stakeholders. The framework provides for the maintenance of key relationships DFSV has with its government and industry stakeholders, research, education and training organisations, and consumers. Maintaining engagement with industry stakeholders allows DFSV to stay abreast of the industry environment and emerging market trends.

A focus of the communication strategy for the 2015–16 year was a major redevelopment of the DFSV website. The new website, launched in March 2016, allows DFSV to more effectively communicate its responsibilities and regulatory approach. In doing so, it better meets the needs of our stakeholders, particularly licensees with targeted information and improved functionality to support regulatory compliance and the development of technical knowledge and expertise. The site is contemporary and responsive in design, adapting to multiple devices: desktop, tablet and smartphones.

### Complaints and appeals process

During the year DFSV strengthened its framework for receiving and responding to stakeholder feedback including complaints about dairy foods or businesses, about DFSV services and appeals on regulatory decisions.

This was undertaken through revision of the policy and procedure on how DFSV responds to feedback and complaints. In addition, DFSV's revised website readily facilitates the lodging of feedback or a complaint and clearly describes the process that DFSV will follow.

The revised framework and communication processes provide a clearer, more transparent mechanism for stakeholders to communicate with DFSV in this regard.

### Continuous improvement

DFSV is committed to understanding how its licensees view the regulatory and technical services it provides and to continuously improve the way in which it can deliver its regulatory obligations.

During the year DFSV undertook a qualitative and quantitative survey to determine the level of licensee satisfaction with a range of regulatory and technical support and services they receive from DFSV. The survey was designed for all licensee types but focused particularly on the manufacturing sector.

The survey included understanding:

- the extent to which DFSV delivers a timely and proportionate response to food safety incidents
- the perceptions of licensees' confidence in DFSV's ability to deliver on its regulatory obligations
- the level of satisfaction with the quality of communication received from DFSV
- how licensees perceive the culture of DFSV.

Pleasingly, the survey results showed that licensees have a high degree of confidence in DFSV's ability to deliver its regulatory responsibilities and that the actions of DFSV safeguard public health.

Feedback also suggests that there is an opportunity to increase the frequency of communication to licence holders to increase the familiarity with DFSV's work. This feedback provides constructive context to DFSV in developing its communication plans going forward.

The results provide a benchmark upon which DFSV can continue to monitor licensee satisfaction and confidence in DFSV's performance in future years.

Key performance indicators:

Success	Performance indicators	Result 2015–16
High stakeholder confidence in DFSV's ability to deliver on its regulatory obligations	<b>Qualitative evaluation using feedback from manufacturers</b>	<b>% positive response</b>
	Confidence in DFSV as a regulator	88%
	Confidence that DFSV activities adequately safeguard public health	92%
	DFSV conducts audits frequently enough to ensure dairy food safety laws are adhered to	97%
High proportion of external recipients of communications satisfied with the quality of communications that they received	DFSV acts to address any identified non-compliance with dairy food safety laws	97%
	Level of satisfaction with the quality of communications received	95%



# Performance report

## 4. Advice and support objectives

*To provide existing licensees and new market entrants with useful, credible advice, supporting them to meet dairy food regulatory requirements*

*To increase the knowledge base of DFSV to support our regulatory decision making*

### Industry support program

DFSV undertakes a range of industry support activities to build industry competence. This includes publishing technical and scientific advice, interpretation and guidance on regulations and standards, undertaking risk assessments, assisting with food safety program validations, and industry trouble shooting.

Four new technical information notes were developed, addressing topics important to the production of safe dairy foods, along with ongoing review of existing technical information notes. New notes published in 2015–16 covered microbiological analysis, water activity, measuring pH and environmental monitoring.

The technical information hotline provided responses to 107 technical queries on topics including labelling, testing methods, ingredients and regulations and standards interpretation.

During the year DFSV published the *Dairy pathogen manual* and *Microbiological testing criteria – minimum testing requirements for manufacturers of dairy food products* to provide manufacturers with guidance on the appropriate responses to the detection of pathogens in products and environments and the frequency and types of microbiological testing relevant to different categories of dairy products respectively.

DFSV hosted a very successful seminar on *Environmental monitoring – Managing pathogens in the dairy industry*.

The seminar was held in two locations in Melbourne and included trade displays by relevant laboratories and laboratory equipment suppliers. The seminar was attended by 160 dairy manufacturers, consultants and other interested parties and received positive feedback.

The Science and Industry Support Team has developed technical content for the new website relevant to both consumers and industry and has continued to support the Learning Network and Australian Specialty Cheesemakers Association online discussion forums.

The Science and Industry Support team also presented at a number of industry meetings and conferences including:

- Dairy Industry Association of Australia (DIAA) Victoria State Conference – May 2016
- DIAA NSW State Conference – June 2016
- FTAA/CSIRO Seminar: *Food safety: prevention is better than cure seminar* – March 2016
- OzFoodNet meeting – June 2016

DFSV was a major sponsor of the DIAA Victorian State Conference, hosting a trade display that promoted DFSV industry support activities as well as presenting to the conference.

### Learning Network forums

DFSV supports industry competence development through ongoing Learning Network forums. These forums provide an opportunity for networking and information sharing amongst manufacturing licensees in Victoria.

Three rounds of forums were held at six sites across the state. Around 30 per cent of licensed manufacturing sites were represented at these forums and feedback gathered during sessions highlighted the value that industry gains from them.



DFSV Environmental Monitoring Seminar 2016

### Environmental monitoring of emerging food safety issues

DFSV continues to survey the local and global environment for new and emerging issues and trends in food safety and regulation. The latest scientific literature is monitored regularly. Staff have attended a number of national and international conferences such as the annual convention of the Australian Institute of Food Science and Technology, the annual meeting of the International Association of Food Protection, and the 2nd European Food Safety Authority scientific conference with the theme – *Shaping the future of food safety, together*.

DFSV was also called upon to evaluate a potential dairy food safety risk created by the operation of an onshore natural gas processing facility. The evaluation deemed there to be low risk to milk obtained from the area adjacent to the plant.

### Technical advice to support DFSV regulatory operations

The Science and Industry Support team provides regular technical assistance to the Operations team. The recent development of 'opinion pieces' has provided a succinct and

formal method of summarising the DFSV stance on specific issues which may arise during audit or on situations which may present a food safety hazard. These include guidance on the interpretation of the Food Standards Code, labelling issues or the potential presence of chemical contaminants.

The Science and Industry Support team also provides assistance to food safety managers by undertaking site visits to licensees requiring support in resolving food safety-related problems. The team completed site visits to five licensees and assisted in troubleshooting activities, including microbiological surveys and monitoring activities.

### Key performance indicators:

Success	Performance indicator	Result 2015–16
High stakeholder confidence in DFSV's ability to deliver on its regulatory obligations	<b>Qualitative evaluation using feedback from manufacturers</b>	<b>% positive result</b>
	Staff provide enough guidance to help dairy businesses comply with dairy food safety laws	95%

# Performance report

## 5. Participation objective

*To participate in the food regulatory system to ensure the interests of Victoria and the Victorian dairy industry are represented*

### Engagement on food standard setting

DFSV continues to be actively engaged with Food Standards Australia New Zealand (FSANZ) in standard development processes and implementation of the Food Standards Code.

Inputs into the standard setting process occurs in partnership with other Victorian government regulators. During the year this has included input into a proposal prepared by FSANZ to amend the Food Standards Code to include food safety microbiological criteria for infant formula that align with international (Codex Alimentarius) standards and revision of Standard 1.6.1 (Microbiological limits for foods).

### Representing Victoria's interests in the food regulatory system

DFSV continues to lead national discussion with other state regulatory authorities on the implementation of Standard 4.2.4 (Primary Production and Processing Standard for Dairy Products) to support approaches for consistent regulatory oversight.

### Collaboration with state, national and international food regulators

DFSV's CEO continues to participate in the Victorian food regulators forum which aims for a consistent regulatory approach to all Victorian food businesses.

The CEO is also a member of the Implementation Subcommittee for Food Regulation (under the Australia and New Zealand Ministerial Forum on Food Regulation) and attended three meetings in 2015–16.

DFSV attended Dairy Export Industry Consultative Committee meetings on two occasions during the year and participated in Technical Market Access subcommittee work where necessary.

The NZ Ministry for Primary Industries (MPI) hosted a food integrity workshop in Auckland in October 2015 attended by the CEO and Operational Services Manager. The opportunity was taken at that time to meet with MPI staff regarding other issues of common interest, including authorised officer competency.

In August 2015 the CEO attended the Food Safety & Regulatory Measures conference in Birmingham, followed by meetings with Dairy UK and the CEO and staff of the UK Food Standards Agency (UKFSA) to discuss a range of food safety and regulatory issues, including regulation of raw milk products.

The General Manager, Operations visited the UKFSA in March 2016 to gain an understanding of their approach to dairy food safety regulation. DFSV had earlier hosted a visit from directors of the UKFSA and demonstrated aspects of the Victorian food regulatory system.

## 6. Finance objective

*To be financially stable and responsible*

### Funding model review

During the year DFSV commenced a review of its funding model, the aim of which is to ensure that DFSV can continue to raise sufficient funds to enable it to discharge its statutory obligations and deliver its strategic objectives in an evolving dairy environment. The review examined DFSV revenue and costs, including examining DFSV's current activity-based costing model. It compared DFSV's funding model to other jurisdictions, compared the model with the Victorian government cost recovery policy framework and examined payment collection arrangements.

The review provides advice to the DFSV Board that will allow it to consider during the 2016–17 year whether or not the current model can continue to support DFSV to deliver its strategic aims and what, if any changes may need to be made.

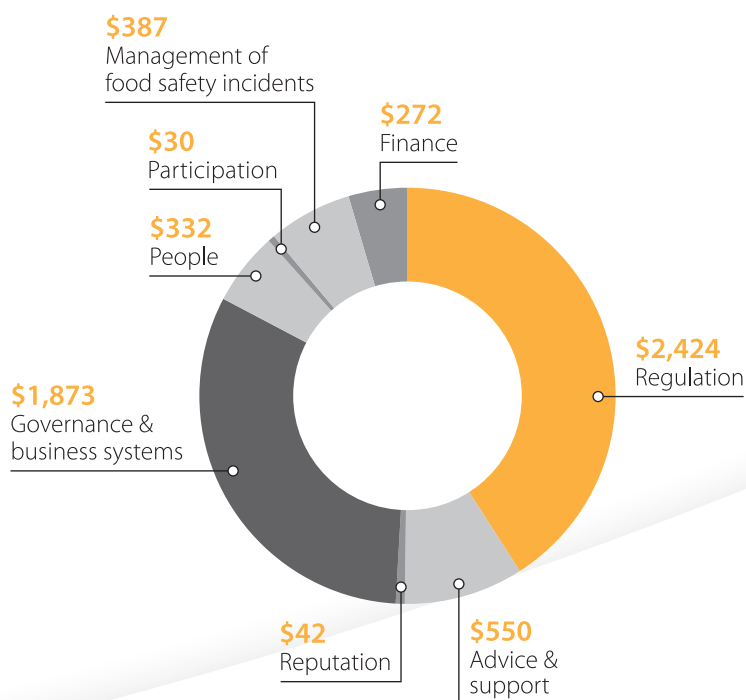
### Budget allocation against portfolio areas

The allocation of budgetary resources across our strategic activities is shown in figure 1. The largest component of budget allocation was to activities under our Regulation objective to maintain compliance with food safety requirements.

Figure 1: 2015–16 budget resource allocation

#### KEY

\$ = thousands



### Financial management

DFSV has maintained a financially stable position keeping expenditure for the year within budget. The DFSV Board has agreed that DFSV maintain total equity (net assets) at a minimum of 90 per cent of annual expenditure, and this position has been met.

### Financial management compliance

As a Victorian public service agency, DFSV abides by the Victorian Financial Management Compliance Framework, ensuring compliance with the Standing Directions for the Minister for Finance to provide for effective, efficient and responsible financial management of public resources. DFSV implements appropriate systems and regularly reviews and adjusts its accounting policies and procedures as required.

# Performance report

**Table 2:** Five-year financial summary

	2016 \$	2015 \$	2014 \$	2013 \$	2012 \$
Total income from transactions	5,848,805	5,789,923	5,373,608	5,180,359	5,015,346
Total expenses from transactions	(5,839,967)	(4,970,462)	(4,791,584)	(4,383,569)	(4,714,764)
Net result from transactions	8,838	819,461	582,024	796,790	300,582
Net cash flow from operating activities	577,834	1,193,616	558,437	769,070	880,207
Total assets	7,203,464	6,842,473	5,885,182	5,836,065	5,243,354
Total liabilities	1,177,036	824,883	687,053	1,219,960	1,420,915

## Overview

In 2015–16 DFSV achieved a close to break-even result of an \$8.8k surplus. Higher expenditure than the previous year reflects investment in increased staffing to meet demands from an expanding manufacturing sector, increased product testing to strengthen monitoring of industry compliance, improved stakeholder engagement through revision of our website and surveying licensee needs, and investment in strategic reviews of our funding model and document management systems.

Whilst the modest surplus does not significantly increase the total equity position over 2015, DFSV's overall equity position remains financially stable and we continue to generate sufficient income to meet operational needs.

## Key performance indicators:

Success	Performance indicator	Result 2015–16
DFSV operates within budget	% and dollar value of actual expenditure compared with budget	Total expenditure \$5,840K (99% of budget)
	% and dollar value of actual licence fee revenue compared with revenue forecast	Total licence revenue \$5,848K (98% of forecast)



## 7. Governance and business systems objective

*To maintain effective and efficient governance and business systems*

### Performance indicator framework and reporting system

This report is the first against DFSV's 2015–2020 Strategic Plan and presents the outcomes of the organisation's activities throughout the year as described in its annual operating plan (AOP) for 2015–2016. The AOP is constructed such that planned activities have a direct relationship to delivery of the strategic objectives. DFSV's operational planning and budgeting cycles are closely integrated and both annual plans and budgets are developed in an iterative process with input from all levels of the organisation.

This report also presents organisational performance data against the strategic objectives. The corporate reporting system developed during the year to support this first report of the 2015–2020 Strategic Plan will now allow trends and comparative analysis over time to be represented over the remaining four years of the Plan.

DFSV has an internal audit program which assists the organisation in evaluating and improving the effectiveness of its risk management, internal controls, governance processes, operational efficiency and compliance with applicable laws and regulations, government and DFSV policies and procedures.

RSM Australia was appointed DFSV's internal audit provider during 2014, for a three-year term.

In 2015–16, audits of the Financial Management Compliance Framework, manufacturer production volumes, stakeholder engagement and communication, Treasury management and the effectiveness of controls identified on the DFSV risk register were undertaken.

DFSV has a risk management framework in place that is consistent with the Australian/New Zealand Standard – Risk Management Principles and Guidelines AS/NZS ISO 31000:2009. DFSV has appropriate procedures for the effective identification, quantification and management of risks. The risk management framework is further enhanced by DFSV's Critical Incident Response Plan.

### Review of policies and procedures

DFSV has focused efforts on strengthening its framework for developing, approving and reviewing organisational policies and supporting procedures. The scope of policies includes all areas of DFSV business activity including corporate, finance, governance, human resources, regulatory operations and science and technology.

### Improving information systems

Since 2014 a major focus for DFSV has been building a business intelligence capability to provide the organisation with a single source of information to enable staff to monitor and report on industry and organisational performance and thereby add value to business decision making.

The capability is now a comprehensive reporting and information resource that provides DFSV with easy access to trusted and reliable information to make more informed business decisions. Development during the year included the generation of dashboards to monitor and manage operational workflow activities and summary industry information for greater understanding of licensee activity trends over time.

To ensure information systems continue to efficiently and effectively support the business, DFSV upgraded core infrastructure during the year and commenced leveraging the use of cloud-hosted infrastructure and software. Decisions to progress with cloud hosted computing services were underpinned by the development of a risk assessment framework which allowed DFSV to determine the acceptability of using off-site hosted facilities from governance, security and operational perspectives. The risk assessment framework was used twice during the year to assess the acceptable suitability of cloud hosted systems for secure offsite data storage and a hosted email service.

DFSV has maintained emergency management protocols for its information systems during the year by undertaking programed recovery testing of its operating systems and business applications, and by reviewing and substantially revising its IT disaster recovery plan. The plan is a component of DFSV's approach to business continuity and is linked to DFSV's Critical Incident Response Plan.

During the year DFSV progressed a program of work to enhance its document management system. The revised system will better allow DFSV to protect its corporate knowledge, improve access to information and meet Public Records Office Victoria recordkeeping standards.

The improved system is further supported by the installation of an electronic document and record management system (EDRMS) which commenced development in the latter part of the year and will be operational for all staff in early 2016–17.

# Performance report

## Key performance indicators:

Success	Performance indicators	Result 2015–16	Implemented within timeframe
Best practice corporate governance	<b>Recommendations from reviews and audits that are implemented within agreed timeframes</b>	<b>No. of agreed recommendations</b>	
	Internal reviews or audits	39	69%
	External (VAGO) audit	1	100%
<b>Compliance with government reporting requirements</b> DFSV fully complied with its reporting obligations to the Victorian Government including its annual report (2014–15), Financial Management Compliance Framework, Treasury Management attestation, Freedom of Information report and gifts, benefits and hospitality attestation.			



## 8. People objective

*To have staff with an appropriate level of technical and interpersonal skills who are empowered to undertake their role, and exercise their authority with confidence*

### Competency framework

DFSV continued to focus on increasing staff capability. This year DFSV concentrated on enhancing authorised officer skills. To achieve this all authorised officers completed the Certificate IV in Government (Investigation) enabling officers to confidently implement authorised officer powers provided under the *Dairy Act 2000*.

### Organisational culture

DFSV recognises that organisational culture is critical to the achievement of DFSV's strategic objectives. Annually DFSV undertakes a staff engagement survey measuring a variety of culture and organisational performance indicators. Over the past year DFSV implemented actions in a variety of areas including communication, business systems, leadership, teamwork and empowerment in response to results. The May 2015–16 survey showed significant improvement in training access and effectiveness, business systems, employee engagement and performance development feedback. An action plan is under development in consultation with staff to address areas identified for improvement which will be implemented over the coming year.

### Occupational health and safety initiatives

A major focus over the reporting period has been the refining of occupational health and safety (OHS) systems and embedding a safety culture. This has been achieved through the development of OHS performance targets and measures; the implementation of an occupational health, safety and wellbeing committee; a comprehensive hazard management program; and the revision of policies and procedures in relation to DFSV field staff. These activities have raised awareness of health and safety in the workplace, resulting in increased reporting by staff of incidents and near misses, and contributes to the continuous improvement of the OHS management framework.

### HR policies and procedures review

All DFSV human resources policies were reviewed as part of the organisation-wide policy review. A revised human resources policy suite is now in place ensuring that DFSV is compliant with legislation, industrial instruments and Victorian public sector policy, and aligns with DFSV culture and values.

### Key performance indicators:

Success	Performance indicator	Result 2015–16
Positive, engaged organisational culture	<b>Qualitative evaluation using the staff survey</b>	<b>%positive response</b>
	Employee engagement (net score)	87%
	<b>Qualitative evaluation using feedback from manufacturers</b>	<b>%positive response</b>
	Staff have the right level of technical expertise to do their job	98%
	Staff communicate clearly and effectively	98%
	Staff are empowered to enforce the regulations	97%
	Staff exercise their authority with confidence	95%

# Governance and organisational structure

## The DFSV Board

The DFSV Board consists of seven members, appointed on the basis of their skills and expertise. The Minister appoints the Chair and may also appoint one member nominated by the Secretary of the Department of Economic Development, Jobs, Transport and Resources. The Minister appoints the remaining five members acting upon the recommendations of an industry selection committee.

Board members are appointed having regard to their expertise in one or more of the following areas:

- on-farm milk production
- dairy food manufacturing
- public health
- food technology and safety
- business management
- consumer issues
- any other area the Minister considers relevant to the Authority's functions or powers.

Each member holds office for a term not exceeding three years and is eligible for re-appointment. The current Board term commenced in October 2015. During the 2015–16 financial reporting year, the following changes in composition of the DFSV Board occurred:

- Zoe Attwood, Margaret Darton, Barry Lierich and Keith Mentiplay retired from the Board in October 2015.
- Michael Blake, Josephine Davey, Helen Dornom and Julie Simons were appointed to the Board in October 2015.
- Peter Bailey and Peter Moloney were reappointed to the Board in October 2015.
- Grant Davies retired as Chair in April 2016.
- Michael Taylor (AO) was appointed as Chair in April 2016.

The DFSV Board is empowered to set the strategic direction and oversee the management and performance of the organisation within the framework set by the *Dairy Act 2000* and is accountable to the Victorian Parliament through the Minister for Agriculture.

## Committees

The Risk Management and Audit (RM&A) Committee assists the Board to fulfil its corporate governance and statutory responsibilities in relation to financial reporting, internal control, risk management systems and internal and external audit functions. Members of this committee at 30 June 2016 were Peter Moloney (Chair), Josephine Davey and Helen Dornom.

The Human Resources (HR) Committee assists the Board in fulfilling its statutory responsibilities. The committee also assists the Board in the formulation of human resource management policies and procedures. Members of this committee at 30 June 2016 were Peter Bailey (Chair), Michael Blake and Julie Simons.

The Fees and Charges Consultative (FCC) Committee facilitates consultation with the dairy industry to assist DFSV in the determination of the criteria and structure of licence fees. Representatives of the dairy industry are invited to participate on this committee. For 2016, Board members on this committee were Peter Moloney (Chair) and Michael Blake.

**Table 3:** Membership of DFSV Committees

<b>RM&amp;A</b>	Barry Lierich (Chair until October 2015) Peter Moloney, Committee member and then Chair (from October 2015) Zoe Attwood (until October 2015) Josephine Davey (from October 2015) Helen Dornom (from October 2015)
<b>HR</b>	Margaret Darton (Chair until October 2015) Peter Bailey, Committee member and then Chair (from October 2015) Michael Blake (from October 2015) Keith Mentiplay (until October 2015) Julie Simons (from October 2015)
<b>FCC</b>	Peter Moloney (Chair) Michael Blake

Seven Board and eight committee meetings were held during the year. The number of meetings that each member attended is set out in the following table.

**Table 4:** Attendance at Board and Board committee meetings during the year ended 30 June 2016

	<b>Board</b>	<b>RM&amp;A</b>	<b>HR</b>	<b>FCC</b>
<b>Total number of meetings for year</b>	<b>7</b>	<b>4</b>	<b>3</b>	<b>1</b>
<b>Board Member</b>	<b>No. of meetings attended/No. of meetings eligible to attend</b>			
Grant Davies, Chair (retired 11 April 2016)	5/6			
Michael Taylor, Chair (commenced 12 April 2016)	1/1			
Zoe Attwood *	2/2	1/1		
Peter Bailey†	7/7		3/3	
Michael Blake **	4/5		2/2	1/1
Margaret Darton *	2/2		1/1	
Jo Davey **	5/5	3/3		
Helen Dornom **	5/5	3/3		
Barry Lierich *	2/2	1/1		
Keith Mentiplay *	2/2		1/1	
Peter Moloney+	7/7	4/4		1/1
Julie Simons **	5/5		2/2	

† Board Member for full financial year 2015–16

\* Term expired 11 October 2015

\*\* Term commenced 12 October 2015

# Governance and organisational structure

## Board members



**Michael Taylor AO FTSE – Chair**

B Agr Sc, Dip. Agricultural Economics

Michael was appointed Chair in April 2016. His association with the dairy industry over four decades includes Director of the Victorian Dairy Industry Authority, Chief Executive of Australian Dairy Industry Council, Chair of the Geoffrey Gardiner Dairy Foundation and in policy roles over two decades as Secretary to two Commonwealth and three State Government Departments. He is currently Chair of the Victorian Agricultural Advisory Council, a Principal of Foursight Associates, a director of the Australian Maritime Safety Authority and the Crawford Fund for International Agricultural Research. Previously he was the Chair of Murray Darling Basin Authority, a director of the Melbourne University–Melbourne Business School, the Public Transport Development Authority and numerous other boards.



**Peter Bailey**

M Agr Sc, B Agr Sc

Peter was appointed to the Board in 2012. He has extensive experience working in animal biosecurity, animal welfare and food safety. Until retiring in 2009, Peter was Executive Director of Biosecurity Victoria at the Victorian Department of Primary Industries. Peter has held several board positions including Deputy Chair of the Victorian Meat Authority from 1993 to 2003. He is presently a member of the Board of the Game Management Authority. Over the last seven years, Peter has been involved, on a part-time basis, on a range of projects relating to animal and plant biosecurity, invasive species control, food safety, animal welfare and game management.



**Michael Blake**

BSc, PhD, MBA, GAICD

Michael was appointed to the Board in October 2015. He is a highly-qualified senior manager with many years of experience in food, food packaging and agriculture organisations. He is the current Director, Biosecurity Centre of Excellence at Box Hill Institute and previously served on the Food Safety Council of Victoria. He has a strong knowledge of commercial innovation and research development, and professional working knowledge of the dairy supply chain, having completed his PhD in dairy processing at Utah State University and previously led research and development at Bonlac Foods, and Dairy Australia's pre-farmgate research and development portfolio for animal performance.



**Josephine Davey**

BSc (Hons), MBA, FAICD, FAIFST

Josephine was appointed to the Board in October 2015. She is a company director and consultant experienced in general management, food safety, innovation and product development in the dairy manufacturing sector. She has held senior commercial and technical roles in the Dairy Farmers Group and has served as President of the Dairy Industry Association of Australia and of the Australian Institute of Food Science and Technology. She was a Director of Dairy Innovation Australia Ltd and its predecessor organisations and a member of the Industry Advisory Committee for CSIRO's Food Futures Flagship for 10 years. Jo is presently a Director of Pirrama Consulting.



## Helen Dornom

B Agr Sc (Hons), GAICD

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Helen was appointed to the Board in October 2015. She is a senior executive with extensive experience in the dairy industry, including export reform, industry deregulation and restructure, issues management, industry reputation and quality assurance. In her current role with Dairy Australia Helen focuses on sustainability, food safety and integrity. She has worked with CSIRO Dairy Research, the Australian Dairy Industry Council and the Australian Dairy Products Federation and is currently Vice-president of the Sustainable Agriculture Initiative. Helen has served on a number of International Dairy Federation and FSANZ committees related to residues, animal health and welfare, farm management and food standards.



## Peter Moloney

BEC, GAICD, Chartered Accountant

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Peter was appointed as a director in 2012. He is an experienced risk and audit practitioner, working over 32 years with a broad range of organisations across the public and private sectors. As a past Partner of Ernst & Young and William Buck, Peter was responsible for managing substantial risk practices in both organisations. Peter has held a number of board roles including William Buck and Friends of the Zoos and is also an audit committee member for Department of Justice; Department of Economic Development, Jobs, Transport and Resources; Victorian Independent Broad-based Anti-corruption Commission (IBAC); VicHealth and South Gippsland Water.



## Julie Simons

BSc (Hons), PhD, GAICD

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Julie was appointed to the Board in October 2015. She is an experienced representative of the Victorian Government and brings expertise in strategic policy formulation and implementation, industry research and development, and agricultural and stakeholder engagement. Julie has worked for the Victorian Government since 1988 in various roles including senior research scientist and currently as Director of Rural Development and Transition Policy in the Department of Economic Development, Jobs, Transport and Resources. She has led key rural industry achievements including the recovery response for farmers affected by natural disasters, establishing the Victorian Government's Young Farmers Ministerial Advisory Council, and overseen the State Government's partnership with the Rural Financial Counselling Service.

# Governance and organisational structure

## Occupational health and safety

DFSV is committed to providing a healthy and safe work environment for all staff and others at a DFSV workplace. To achieve this DFSV commits to:

- meeting its requirements under the *Occupational Health and Safety Act 2004*, relevant OHS regulations, and compliance codes
- ongoing dialogue and consultation around health and safety with all those involved in DFSV activities
- providing appropriate training to staff and contractors to enable them to conduct their work safely
- regularly monitoring and reviewing health and safety performance
- promoting a culture that is supportive of OHS, and understanding by all levels of management and staff of their health and safety responsibilities.

DFSV undertakes the full range of health and safety obligations to minimise the human and financial costs of occupational injury and illness. Initiatives implemented during the year include providing:

- annual OHS training
- an OHS Committee
- workplace/office inspections
- fire extinguishers in motor vehicles

- motor vehicle first aid kits for field staff
- trained first aid officers
- access to fire and vehicle breakdown mobile phone applications
- travel planning procedures for field staff.

## Incident management

There were five occupational health and safety incidents (17.8 per 100 full-time equivalent staff members) and no lost time claims during the period 1 July 2015 to 30 June 2016. Occupational health and safety incidents increased from two incidents in 2014–5 and no incidents in the year previous. The increase was driven by the focus on increasing awareness of incident reporting among staff.

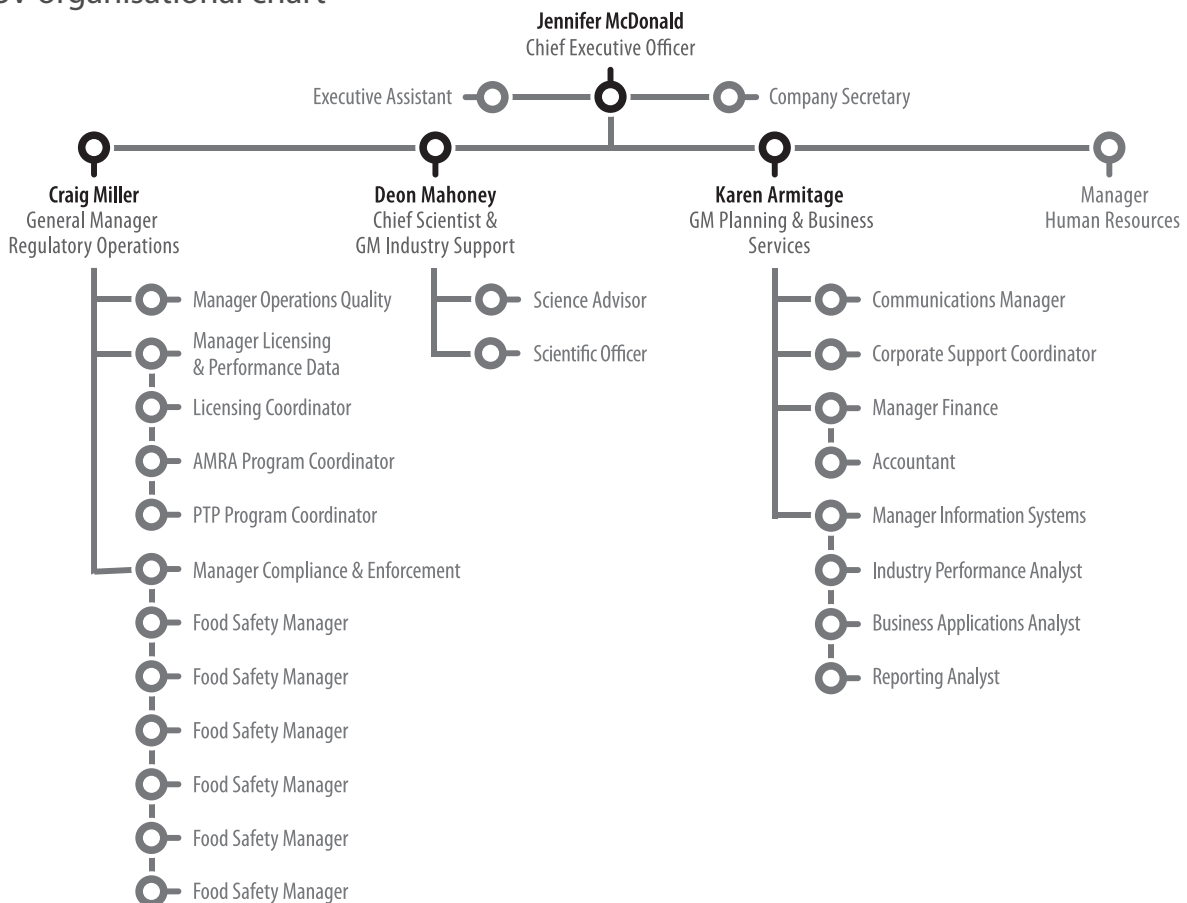
## Employment and conduct principles

DFSV is committed to applying merit and equity principles when appointing staff. Applicants are assessed and evaluated fairly and equitably against selection criteria.

The recruitment and selection process:

- recognises and complies with all current legislation governing aspects of recruitment
- conducts activities in accordance with the principles of equal opportunity.

## DFSV organisational chart





# Workforce data

## Public administration values and employment principles

DFSV policies support compliance with all public sector employment principles, including public sector conduct. DFSV is committed to being an employer of choice and provides all staff with the opportunity and encouragement to further their development.

## Comparative workforce data

**Table 5:** Summary of employment levels in June 2015 and June 2016

	Ongoing employees (i)				Fixed term and casual
	Employees (Headcount)	Full time (Headcount)	Part time (Headcount)	FTE	FTE
<b>June 2016</b>	29	21	8	<b>26.4(ii)</b>	<b>0</b>
<b>June 2015</b>	27	18	9	24	0.6

**Table 6:** Details of employment levels in June 2015 and June 2016

	June 2016			June 2015		
	Ongoing (i)		Fixed term and casual employees	Ongoing (i)		Fixed term and casual Employee
	Ongoing (i) Employee (Headcount)	FTE	FTE	Ongoing (i) Employee (Headcount)	FTE	FTE
Gender						
Male	11	11	0	11	11	0
Female	18	15.4	0	16	1	0.6
<b>Total</b>	<b>29</b>	<b>26.4</b>	<b>0</b>	<b>27</b>	<b>24</b>	<b>0.6</b>
Age						
Under 25	0	0	0	0	0	0
25–34	2	2	0	3	2.2	0
35–44	10	8.6	0	7	6.6	0.6
45–54	9	8	0	9	7.4	0
55–64	7	6.8	0	7	6.8	0
Over 64	1	1	0	1	1	0
<b>Total</b>	<b>29</b>	<b>26.4</b>	<b>0</b>	<b>27</b>	<b>24</b>	<b>0.6</b>
Position						
Executive	4	4	0	4	4	0
Corporate(III)	9	7.5	0	8	6.5	0
Technical	13	11.9	0	13	11.5	0.6
Administration	3	3	0	2	2	0
<b>Total</b>	<b>29</b>	<b>26.4</b>	<b>0</b>	<b>27</b>	<b>24</b>	<b>0.6</b>

### Notes:

- All figures reflect employment levels during the last full pay period in June of each year and exclude employees on leave without pay (0.6 FTE). Ongoing employees include executives engaged on a standard executive contract who were active in the last full pay period as at 30 June.
- The increase in employment FTE levels between June 2015 and June 2016 is in response to increased and ongoing demand for auditing services (0.4 FTE), the ongoing requirement for business intelligence skills to achieve performance reporting strategies (1 FTE) and replacement of an employee (1 FTE) whilst on long service leave.
- Corporate includes employees working in information technology finance, human resources, communications, performance reporting, quality and governance.

## Other disclosures

### Victorian Industry Participation Policy

The *Victorian Industry Participation Policy Act 2003* requires public sector bodies to report on the implementation of the Victorian Industry Participation Policy (VIPP). Public sector bodies are required to apply the VIPP in all procurement activities valued at \$3 million or more in metropolitan Melbourne and for statewide projects, or \$1 million or more for procurement activities in regional Victoria.

DFSV has not undertaken any projects during the financial reporting period relevant to the VIPP.

### Consultancy expenditure

**Table 7:** Disclosure of consultancy expenditure

Consultant	Purpose of consultancy	Total approved project fee (excluding GST)	Expenditure 2015–16 (excluding GST)	Future expenditure (excluding GST)
Jackson Advisory Pty Ltd	Management review	\$13,500	\$13,500	–
Maddock Lawyers	Compliance review	\$39,885	\$35,580	–
Mercer Consultancy	Remuneration review	\$13,700	\$13,700	–
Quantum Market Research (Aust) Pty Ltd	Stakeholder engagement survey	\$35,773	\$35,702	–
Votar Partners Pty Ltd	Document management review	\$60,780	\$59,600	–
Quantum Management Indicators Pty Ltd	Staff survey	\$12,003	\$12,003	–
Intellect Information Technology Pty Ltd	Cloud and Disaster Recovery solutions	\$19,775	\$19,775	–
Risk2C Pty Ltd	Risk Management Framework	\$12,980	\$12,980	–
Marsden Jacob Consultancy	Funding model review	\$54,960	\$54,960	–
<b>Totals</b>		<b>\$263,356</b>	<b>\$257,800</b>	–

In 2015–16, the total amount for consultancies engaged during the year, where the individual project amounts were less than \$10,000 was \$78,780. All figures exclude GST.

### Information and Communications Technology (ICT) expenditure

For the 2015–16 reporting period, DFSV had a total ICT expenditure of \$510,565 with the details shown below.

**Table 8:** ICT expenditure

<i>Business as usual (BAU) ICT expenditure</i>	<i>Non-business as usual (non BAU) ICT expenditure</i>	<i>Non-BAU operational expenditure</i>	<i>Non-BAU capital expenditure</i>
(Total)	(Total = operational expenditure and capital expenditure)		
\$278,000	\$233,000		\$233,000

ICT expenditure refers to costs in providing business enabling ICT services. It comprises business as usual (BAU) ICT expenditure and Non-business as usual (Non-BAU) ICT expenditure. Non-BAU ICT expenditure relates to extending or enhancing DFSV's current ICT capabilities. BAU ICT expenditure is all remaining ICT expenditure which primarily relates to ongoing activities to operate and maintain the current ICT capability.

## Freedom of information

The *Freedom of Information Act 1982* allows the public a right of access to documents held by DFSV as the prescribed authority for the purposes of the Act. For the 12 months ended 30 June 2016, there were two freedom of information requests received by DFSV.

Freedom of information requests must be made in writing describing the documents requested and including payment of the application fee of \$27.90. The fee may be waived if the payment is likely to cause hardship to the applicant. Assistance can be provided to applicants to help determine the type of documents being requested. Access charges may also apply once documents are processed and a decision on access is made; for example photocopying and search and retrieval charges.

Requests for documents in the possession of DFSV should be addressed to:

Freedom of Information Officer  
Dairy Food Safety Victoria  
PO Box 8221  
Camberwell North, Victoria 3124

Further information regarding the Freedom of Information Act may be found at [www.foi.vic.gov.au](http://www.foi.vic.gov.au)

## Compliance with the Building Act

DFSV does not own or control any buildings and consequently is exempt from notifying its compliance with the building and maintenance provisions of the *Building Act 1993*.

## National Competition Policy

The Victorian Government largely adopted the recommendations presented in July 1999 and incorporated them into the *Dairy Act 2000*.

## Compliance with the Protected Disclosure Act

DFSV is a public body subject to the *Protected Disclosure Act 2012*. The purpose of this Act is to encourage and facilitate the making of disclosures of corrupt or improper conduct by public officers and public bodies, including DFSV, its employees and directors, without the fear of reprisal.

DFSV recognises the value of transparency and accountability in its administrative and management practices, and supports the making of disclosures that reveal improper conduct. It does not tolerate improper conduct by the organisation, its employees, officers or board members, nor the taking of detrimental action in reprisal against those who come forward to disclose such conduct.

DFSV has established procedures to facilitate and encourage the making of disclosures under this Act, and how DFSV will manage the welfare of persons connected with protected disclosures. DFSV's Protected Disclosure Procedures are available at [www.dairysafe.vic.gov.au](http://www.dairysafe.vic.gov.au)

Disclosures under this Act about improper conduct of, or detrimental action taken in reprisal for a protected disclosure, by DFSV or its employees and board members must be made to the Victorian Independent Broad-based Anti-corruption Commission (IBAC):

- in person at Level 1, North Tower, 459 Collins Street, Melbourne, Victoria
- by online complaint form available at [www.ibac.vic.gov.au](http://www.ibac.vic.gov.au)
- by email by downloading the complaint form and forwarding to [info@ibac.vic.gov.au](mailto:info@ibac.vic.gov.au)
- in writing GPO Box 24234, Melbourne, Victoria, 3001
- by telephone 1300 735 135

Further information can be obtained from the:

DFSV Protected Disclosure Coordinator  
(03) 9810 5900  
PO Box 8221, Camberwell North, Victoria, 3124  
[info@dairysafe.vic.gov.au](mailto:info@dairysafe.vic.gov.au) or at [www.dairysafe.vic.gov.au](http://www.dairysafe.vic.gov.au)

## Office-based environmental impacts

DFSV continues to recognise the importance of environmental sustainability and maintains its commitment to minimising its environmental footprint. DFSV does so by adopting environmentally sustainable practices within its office and field-based operations. This is evidenced by:

- minimising energy, water and paper use, including maximising the use of energy-efficient lighting and using water efficient tap fittings and appliances
- efficient practices of energy usage in the office environment, such as turning off lights and a switch-off policy for computers and appliances
- recycling waste materials including paper, cardboard, plastic bottles and cans, toner cartridges, batteries and obsolete IT equipment
- reducing greenhouse gas emissions associated with our vehicle fleet by leasing fuel efficient cars
- encouraging the use of public transport when attending meetings in the central business district with MYKI cards made available for this purpose
- the provision of cycle-friendly facilities for staff
- making environmentally-sound purchasing decisions for capital items and consumables, including the purchase of recycled paper and appliances with high star energy efficiency ratings.

## Other disclosures

### Additional information on request

In compliance with the requirements of the Standing Directions of the Minister for Finance, details in respect of the items listed below have been retained by DFSV and are available on request, subject to the provisions of the *Freedom of Information Act 1982*.

- A statement that declarations of pecuniary interests have been duly completed by all relevant officers.
- Details of shares held by a senior officer as nominee, or held beneficially in a statutory authority or subsidiary.
- Details of publications produced by the agency about itself, and how these can be obtained.
- Details of changes in prices, fees, charges, rates and levies charged by the agency.
- Details of any major external reviews carried out on the agency.
- Details of major research and development activities undertaken by the agency.
- Details of overseas visits undertaken, including a summary of the objectives and outcomes of each visit.
- Details of major promotional, public relations and marketing activities undertaken by the agency to develop community awareness of the entity and its services.
- Details of assessments and measures undertaken to improve the occupational health and safety of employees.
- A general statement on industrial relations within the agency, and details of time lost through industrial accidents and disputes.
- A list of the agency's major committees; the purposes of each committee; and the extent to which the purposes have been achieved.
- Details of all consultancies and contractors including: consultants/contractors engaged; services provided; and expenditure committed for each engagement.

### Attestation for compliance with Ministerial Standing Direction 4.5.5 – Risk Management Framework and Processes

I, **Michael Taylor** certify that Dairy Food Safety Victoria has complied with the Ministerial Standing Direction 4.5.5 – Risk Management Framework and Processes. The Dairy Food Safety Victoria Risk Management and Audit Committee verifies this.



Michael Taylor AO  
Chair



## Financial statements

for the financial year ended  
30 June 2016

# Comprehensive operating statement

For the financial year ended 30 June 2016

	Note	2016 \$	2015 \$
<b>Income from transactions</b>			
Licence and service fees	2(a)	5,701,224	5,639,640
Interest	2(b)	147,142	137,766
Other income	2(c)	439	12,517
<b>Total income from transactions</b>		<b>5,848,805</b>	<b>5,789,923</b>
<b>Expenses from transactions</b>			
Employee expenses (i)	2(d)	3,151,088	2,855,826
Depreciation and amortisation	2(e)	268,592	240,660
Professional services (i)		678,005	523,146
Product testing and laboratory evaluation costs		542,888	391,630
Information technology		277,631	203,784
Operating leases and rental		209,830	194,237
Other operating expenses (i)	2(f)	590,240	540,998
<b>Total expenses from transactions</b>		<b>5,718,274</b>	<b>4,950,281</b>
<b>Net result from transactions (net operating balance)</b>		<b>130,531</b>	<b>839,642</b>
<b>Other economic flows included in net result</b>			
Net gain/(loss) on disposal of non-financial assets	1(h)	682	(5,901)
Net gain/(loss) from revaluation of long service leave liability (i)	1(h)	(122,375)	(14,280)
<b>Total other economic flows included in net result</b>		<b>(121,693)</b>	<b>(20,181)</b>
<b>Comprehensive result</b>		<b>8,838</b>	<b>819,461</b>

(i) See note 1 (w) for comparative changes to 2015.

The comprehensive operating statement should be read in conjunction with the notes to the financial statements included on pages 34–57.

# Balance sheet

As at 30 June 2016

	Note	2016 \$	2015 \$
<b>Assets</b>			
<b>Financial assets</b>			
Cash and deposits	10(a)	4,406,827	6,065,155
Receivables	3	226,173	179,185
Other financial assets	1(k)	2,000,000	-
<b>Total financial assets</b>		<b>6,633,000</b>	<b>6,244,340</b>
<b>Non-financial assets</b>			
Plant and equipment	4	186,169	257,324
Intangible assets	5	322,254	283,530
Prepayments		62,041	57,279
<b>Total non-financial assets</b>		<b>570,464</b>	<b>598,133</b>
<b>Total assets</b>		<b>7,203,464</b>	<b>6,842,473</b>
<b>Liabilities</b>			
Payables	6	563,394	378,738
Provisions	7	613,642	446,145
<b>Total liabilities</b>		<b>1,177,036</b>	<b>824,883</b>
<b>Net assets</b>		<b>6,026,428</b>	<b>6,017,590</b>
<b>Equity</b>			
Contributed capital		1,800,000	1,800,000
Accumulated surplus		4,226,428	4,217,590
<b>Total equity</b>		<b>6,026,428</b>	<b>6,017,590</b>
Commitments for expenditure	9		
Contingent assets and contingent liabilities	17		

The balance sheet should be read in conjunction with the notes to the financial statements included on pages 34–57.

# Statement of changes in equity

For the financial year ended 30 June 2016

	Note	Contributed capital \$	Accumulated surplus \$	Total equity \$
<b>Balance at 1 July 2014</b>		1,800,000	3,398,129	5,198,129
Comprehensive result for the year		–	819,461	819,461
<b>Balance as at 30 June 2015</b>		<b>1,800,000</b>	<b>4,217,590</b>	<b>6,017,590</b>
Comprehensive result for the year		–	8,838	8,838
<b>Balance as at 30 June 2016</b>		<b>1,800,000</b>	<b>4,226,428</b>	<b>6,026,428</b>

The statement of changes in equity should be read in conjunction with the notes to the financial statements included on pages 34–57.



# Cash flow statement

For the financial year ended 30 June 2016

	Note	2016 \$	2015 \$
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Receipts from other entities		5,666,139	5,572,307
Interest received		130,584	139,299
Goods and services tax recovered from the ATO (i)		138,305	75,619
<b>Total receipts</b>		<b>5,935,028</b>	<b>5,787,225</b>
<b>Payments</b>			
Payment to suppliers and employees		(5,357,194)	(4,593,609)
<b>Total payments</b>		<b>(5,357,194)</b>	<b>(4,593,609)</b>
<b>Net cash flows from operating activities</b>	<b>10(b)</b>	<b>577,834</b>	<b>1,193,616</b>
<b>Cash flows from investing activities</b>			
Payments for other financial assets	1(k)	(2,000,000)	–
Payments for plant and equipment	4(a)	(37,773)	(47,953)
Payments for intangible assets	5	(198,389)	(183,222)
<b>Net cash flows used in investing activities</b>		<b>(2,236,162)</b>	<b>(231,175)</b>
<b>Net increase in cash and cash equivalents</b>		<b>(1,658,328)</b>	<b>962,441</b>
Cash and deposits at the beginning of the financial year		6,065,155	5,102,714
<b>Cash and deposits at the end of the financial year</b>	<b>10(a)</b>	<b>4,406,827</b>	<b>6,065,155</b>

(i) Goods and services tax paid to the ATO is presented on a net basis.

The cash flow statement should be read in conjunction with the notes to the financial statements included on pages 34–57.

# Notes to financial Statements

For the financial year ended 30 June 2016

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## Note 1 – significant accounting policies

These annual financial statements represent the audited general purpose financial statements for Dairy Food Safety Victoria (DFSV) as an individual reporting entity for the financial year ended 30 June 2016.

### a) Statement of compliance

These general purpose financial statements consist of a comprehensive operating statement, balance sheet, statement of changes in equity, cash flow statement and notes accompanying these statements. These financial statements have been prepared in accordance with Australian Accounting Standards (AASs), which include Interpretations, issued by the Australian Accounting Standards Board (AASB), the requirements of the *Financial Management Act 1994* and applicable Ministerial Directions.

Where applicable, those paragraphs of the AASs applicable to not-for-profit entities have been applied.

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 reported.

The financial statements were authorised for issue by the Board on 18 August 2016. The following is a summary of the accounting policies used by DFSV in the preparation of these financial statements.

### b) Basis of accounting preparation and measurement

The accrual basis of accounting has been applied in the preparation of these financial statements whereby assets, liabilities, equity, income and expenses are recognised in the reporting period to which they relate, regardless of when cash is received or paid, with the exception of specific sources of licence fee revenue. Revenue identification and recording for farm licence fees, distributor licence fees and carrier licence fees is upon receipt of cash.

The financial statements have been prepared in accordance with the historical cost convention, except for non-financial physical assets, being plant and equipment, including leasehold improvements. Plant and equipment is measured, subsequent to acquisition, at their fair value (refer to note m). Management evaluations of carrying amounts are made with sufficient regularity to ensure that the carrying amounts do not materially differ from their fair value.

Consistent with AASB 13 *Fair Value Measurement* (AASB 13), DFSV determines the policies and procedures for recurring fair value measurements such as plant and equipment in accordance with the requirements of AASB 13 and the relevant Financial Reporting Directions. DFSV does not hold any asset that is within the non-recurring fair value measurements category.

When measuring fair value of any asset or liability, DFSV uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the lowest level of inputs that is significant to the fair value measurement as a whole:

- Level 1 — fair value is determined by using quoted prices (unadjusted) 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 determined by using inputs are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 — fair value is determined by using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

For the purpose of fair value disclosures, DFSV 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, DFSV determines whether transfers have occurred between levels in the hierarchy by re-assessing 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.

Amending standard AASB 2015–7 Amendments to Australian Accounting Standards – Fair Value Disclosures of Not-for-Profit Public Sector Entities, which is operative from 1 July 2016 provides an exemption for not-for-profit public sector entities from certain fair value disclosures. Please note that the State early adopted AASB 2015–7 in the 2014–15 reporting period and gave not-for-profit entities the option to early adopt this amending standard last year. As a result, all not-for-profit entities must now comply this amending standard for the current financial year.

### Critical accounting estimates and judgments

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.

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 effects on the financial statements and estimates relate to:

- the fair value of plant and equipment, intangible assets and non-financial assets (refer to note 1(m))
- superannuation expense (see note 1 g (ii))
- revenue and expenditure accruals (see note 1(f) and 1(g)).

### Functional and presentation currency

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

### c) Reporting entity

Dairy Food Safety Victoria is a statutory authority of the State of Victoria, established pursuant to an order made by the Premier under the *Dairy Act 2000*. Its principal address is:

Level 2, 969 Burke Road  
Camberwell VIC 3124

### Objectives and funding

DFSV objectives are to ensure that standards which safeguard public health are maintained in the Victorian dairy industry and to ensure that it performs its functions and exercises its powers efficiently and effectively.

DFSV fixes and charges fees for its services which covers annual licence fees, and audit and inspection fees. In addition, costs for the Australian Milk Residue Analysis survey are recovered from Dairy Australia.

### d) New and amended standards adopted

DFSV has reviewed and applied all new accounting standards and amendments applicable for the first time in the annual reporting period commencing 1 July 2015, and determined that there was no material impact on its financial statements in the current reporting year.

### e) Scope and presentation of financial statements

#### Comprehensive operating statement

The comprehensive operating statement comprises three components, being 'net result from transactions' (or termed as 'net operating balance'), 'other economic flows included in net result', as well as 'other economic flows – other comprehensive income'. The sum of the former two represents the net result.

The net result is equivalent to profit or loss derived in accordance with the AASs.

'Other economic flows' are changes arising from market re-measurements. They include:

- gains and losses from disposals of non financial assets;
- revaluations and impairments of non financial physical and intangible assets;
- re-measurement arising from defined benefit superannuation plans; and
- fair value changes of financial instruments.

This classification is consistent with the whole-of-government reporting format and is allowed under AASB 101 *Presentation of Financial Statements*.

# Notes to financial Statements

For the financial year ended 30 June 2016

## Balance sheet

Assets and liabilities are presented in liquidity order with assets aggregated into financial assets and non-financial assets.

Current and non-current assets and liabilities (non-current being those assets or liabilities expected to be recovered or settled more than 12 months after the reporting period) are disclosed in the notes, where relevant.

## Statement of changes in equity

The statement of changes in equity presents reconciliations of owner equity from opening balances at the beginning of the year to the closing balances at the end of the year, showing separately movements due to amounts recognised in the comprehensive result and amounts recognised in equity related to transactions with owners in their capacity as owners.

## Cash flow statement

Cash flows are classified according to whether or not they arise from operating, investing or financing activities in accordance with AASB 107 *Statement of Cash Flows*.

## Rounding amounts

Amounts in the financial statements have been rounded to the nearest dollar unless otherwise stated.

## f) Income from transactions

Amounts disclosed as revenue are, where applicable, net of returns, allowances, duties and taxes. Revenue is recognised for each of DFSV's major activities as follows:

### (i) Licence and service fees

The identification and recording of revenue is at the time of generation of the invoice for manufacturers' licence fees, audit fees and distributors' and carriers' licence fees (upon request). Fees relating to the Australian Milk Residue Analysis survey is recognised when the right to receive payment from Dairy Australia is established. Revenue identification and recording for farm licence fees, distributors' licence fees and carriers' licence fees is upon receipt of cash.

### (ii) Interest revenue

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

### Other income

Other income consists of miscellaneous income on an accrual basis.

## g) Expenses from transactions

### (i) Employee benefits

Employee benefits expense includes all costs related to employment including wages and salaries, leave entitlements, redundancy payments and superannuation contributions. These are recognised when incurred.

### (ii) Superannuation

The amount charged to the comprehensive operating statement in respect of superannuation represents contributions made or due by DFSV to the relevant superannuation plans in respect of the services of staff (both past and present). Superannuation contributions are made to the plans based on the relevant rules of each plan and any relevant compulsory superannuation requirements that DFSV is required to comply with. Further information is provided in note 8.

### (iii) Operating leases

Operating lease payments, including any contingent rentals, are recognised as an expense in the comprehensive operating statement on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern of the benefits derived from the use of the leased asset. The leased asset is not recognised in the balance sheet.

### (iv) Depreciation and amortisation

Depreciation is provided on plant and equipment and is calculated on a straight-line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. Leasehold improvements and capitalised software are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation (no change from 2014–15):

<b>Class of asset</b>	<b>Useful life of asset</b>
Furniture and fittings	5 to 10 years
Office equipment	3 to 10 years
Software	3 years
Leasehold improvements	Life of lease (3 to 5 years)

**(v) Product testing and laboratory evaluation costs**

Comprises costs associated with the Australian Milk Residue Analysis survey and the Product Surveillance Program.

The Australian Milk Residue Analysis survey monitors raw milk for the potential presence of agricultural, veterinary and environmental chemical residues and the Product Surveillance Program monitors the safety and quality of dairy products manufactured in Victoria. Costs are recognised as an expense when incurred.

**(vi) Other operating expenses**

All other operating expenses generally represent the day-to-day running costs incurred in normal operations. They are recognised as an expense in the reporting period in which they incurred.

**h) Other economic flows included in the net result**

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

**Net gain/ (loss) on disposal of non-financial assets**

Any gain or loss on the disposal of non-financial assets is recognised at the date of disposal and is determined after deducting the proceeds from the carrying value of the asset at the time.

**Net gain/ (loss) from revaluation of long service leave liability**

Any gain or loss on the revaluation of long service leave liability is recognised at the end of the reporting period (see note 1 o (ii)).

**i) 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. Due to the nature of DFSV's activities, certain financial assets and financial liabilities arise under statute rather than a contract. Such financial assets and liabilities do not meet the definition of financial instruments in AASB 132 *Financial Instruments*. For example, statutory receivables arising from taxes, fines and penalties do not meet the definition of financial instruments as they do not arise under contract. However, guarantees issued by the Treasurer on behalf of DFSV are instruments because, although authorised under statute, the terms and conditions for each financial guarantee may vary and are subject to an agreement.

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 and those that do not.

The following refers to financial instruments unless otherwise stated.

**Loans and receivables**

Loans and receivables are financial instrument assets with fixed and determinable payments that are not quoted on an active market. These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial measurement, loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

The loans and receivables category include term deposits with maturity greater than three months, trade receivables, loans and other receivables, but not statutory receivables.

**Financial liabilities at amortised cost**

Financial instrument liabilities are initially recognised on the date they originated. They are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial instruments are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of interest-bearing liability, using the effective interest rate method.

Financial instrument liabilities measured at amortised cost include all payables, deposits held and interest-bearing arrangements.

# Notes to financial Statements

For the financial year ended 30 June 2016

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## j) Cash and deposits

Cash and deposits comprise cash on hand, cash at bank and short-term deposits up to 90 days. They represent highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value.

Cash and deposits is equivalent to cash and cash equivalents in accordance with the AASs.

For cash flow statement presentation purposes, cash and deposits includes bank overdrafts (if any) which are included as borrowings on the balance sheet.

## k) Other financial assets

Comprises term deposits with maturities greater than 90 days placed with an Authorised Deposit-taking Institution (ADI) being an Australian bank and/or Treasury Corporation of Victoria.

## l) Receivables

Receivables consist predominantly of debtors in relation to services, accrued investment income and GST input tax credits recoverable.

Receivables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest rate method, less any accumulated impairment.

The difference between 'Contractual' and 'Statutory' receivables at note 3 is that Statutory relates to receivables from Government entities of either the Australian Taxation Office or the State Revenue Office of Victoria. Contractual relates to all other receivables.

A provision for doubtful debts is recognised when there is objective evidence that the debts may not be collected, and bad debts are written off when identified.

## m) Non-financial assets

### Plant and equipment

Plant and equipment, including leasehold improvements, are initially recognised at cost and subsequently revalued at fair value. Initial cost recognised less accumulated depreciation and impairment, has been assessed to reasonably represent the fair value of plant and equipment.

The leasehold improvements made to 'fit out' the office premises at Level 2, 969 Burke Road Camberwell are being depreciated over the five-year term of the lease agreement, to reflect the consumption of economic resources over the period of the agreement.

Where an asset is acquired for no or nominal cost, the cost is its fair value at the date of acquisition. The threshold for recording assets is \$2,000 (2014/15: \$2,000).

Leases of plant and equipment are classified as finance leases whenever the terms of the lease transfers substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense in the operating statement on a straight-line basis over the lease term.

### Intangible assets

Purchased intangible assets are initially measured at cost. The threshold for recording assets was changed from \$2,000 to \$5,000 from 17 March 2016. Intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Costs incurred subsequent to initial acquisition are capitalised when it is expected that additional future economic benefits will flow to the entity.

When the recognition criteria in AASB 138 *Intangible Assets* are met, internally-generated intangible assets are recognised and measured at cost less accumulated amortisation and impairment. Expenditure on research activities is recognised as an expense in the period in which it is incurred.

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An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following are demonstrated:

- (i) the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- (ii) an intention to complete the intangible asset and use or sell it;
- (iii) the ability to use or sell the intangible asset;
- (iv) the intangible asset will generate probable future economic benefits;
- (v) the availability of adequate technical, financial and other resources to complete the develop to use or sell the intangible asset; and
- (vi) the ability to measure reliably the expenditure attributable to the intangible asset during its development.

### **Impairment of non-financial assets**

Intangible assets not yet available for use with indefinite useful lives are tested annually for impairment (as described below) and whenever there is an indication that the asset may be impaired.

All other non-financial assets are assessed annually for indications of impairment. If there is an indication of impairment, the assets concerned are tested as to whether their carrying value exceeds their recoverable amount.

Where, as a result of an impairment testing, an asset's carrying value exceeds its recoverable amount, the difference is written off as an 'other economic flow', except to the extent that the write-down can be debited to an asset revaluation surplus amount applicable to that class of asset.

If there is an indication that there has been a change 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. The 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. Recoverable amounts for assets held primarily to generate net cash flows is measured at the higher of the present value of future cash flows expected to be obtained from the asset and fair value less costs to sell.

### **Prepayments**

Prepayments represent payments in advance of receipt of goods and services, or that part of expenditure made in one accounting period covering a term extending beyond that period.

## **n) Payables**

Payables consist of creditors and other sundry liabilities.

Payables are carried at amortised cost and represent liabilities for goods and services provided to DFSV prior to the end of the financial year that are unpaid, and arise when DFSV becomes obliged to make future payments in respect of the purchase of these goods and services.

'Statutory' payables disclosed in note 6, relates to payables to Government entities of either the Australian Taxation Office or the State Revenue Office of Victoria, while 'Contractual' payables relates to all other payables.

## **o) Employee benefits**

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

### **(i) Wages and salaries and annual leave**

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

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

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

# Notes to financial Statements

For the financial year ended 30 June 2016

## (ii) Long service leave

Liability for long service leave (LSL) is recognised in the provision for employee benefits.

### Current liability – unconditional LSL

Unconditional LSL represents the employees' entitlement after seven or more years of continuous service and is disclosed as a current liability, even where DFSV does not expect to settle the liability within 12 months because it will not have the unconditional right to defer the settlement of the entitlement should an employee take leave within 12 months.

The current LSL liability is measured at:

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

### Non-current liability – conditional LSL

This liability represents the employee entitlements for less than seven years of continuous service, which DFSV has an unconditional right to defer the settlement of payment until the employee has completed the requisite years of service. This liability is measured at the present value.

Consideration is given to the expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date to estimate the future cash flows at a pre-tax rate that reflects current market assessments of the time value of money.

Any gain or loss following revaluation of the present value of non current LSL liability is recognised in the comprehensive result as an economic flow.

## (iii) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee decides to accept an offer of benefits in exchange for the termination of employment. DFSV recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

## (iv) Employee benefits on-cost

Provisions for on-costs such as payroll tax, workers compensation and superannuation are recognised separately from the provision for employee benefits.

## p) Provisions

Provisions are recognised when DFSV has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is estimated using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recognised from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

## q) Equity

### Contribution by owners

Additions to net assets which have been designated as contributions by owners are recognised as contributed capital. Other transfers that are in the nature of contributions or distributions have also been designated as contributions by owners.

Transfers of net assets arising from administrative restructurings are treated as distributions to or contributions by owners.



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**r) Commitments**

Commitments include operating commitments arising from non-cancellable contractual or statutory sources not recognised in the financial statements. Commitments are disclosed by way of a note, and are measured at their nominal value inclusive of GST.

**s) 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 and, if quantifiable, are measured at their nominal value. Contingent assets and liabilities are presented inclusive of GST receivable or payable respectively.

**t) Goods and services tax (GST)**

Income, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as a current asset or liability in the balance sheet.

Cash flows are included in the cash flow statement on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from or payable to the taxation authority are classified as operating cash flows.

**u) Income tax**

DFSV is a statutory body that is exempt from income tax under the State and Territory Bodies provisions in Division 1AB of the *Income Tax Assessment Act 1936* section 24AR.

**v) Subsequent events**

Assets, liabilities, income or expenses arise from past transactions or other past events. Where the transactions result from an agreement between DFSV and other parties, the transactions are only recognised when the agreement is irrevocable at or before balance date. Adjustments are made to amounts recognised in the financial statements for events which occur after the reporting date and before the date the statements are authorised for issue, where those events provide information about conditions which existed at the reporting date. Note disclosure is made about events between the balance date and the date the statements are authorised for issue where the events relate to conditions which arose after the reporting date and which may have a material impact on the results of subsequent years.

**w) Comparative changes**

The following comparative changes have occurred in 2015 for greater transparency:

- Long service leave revaluation of \$14,280 has been reallocated to 'other economic flows included in net result' from 'Employee expenses' in the comprehensive income statement and note 2(d).
- Internal audit fees of \$49,920 has been reallocated to 'Audit fees' from 'Professional services' (see Note 2 (f)).

**x) New accounting standards and interpretations**

Certain new AASs have been issued but were not mandatory for the 30 June 2016 reporting period. DFSV's management assess the impact of these new standards, their applicability to the entity and early adoption where applicable.

The following table shows the applicable issued AASs but not yet mandatory for the financial year ended 30 June 2016. DFSV has not, and does not intend to, adopt these standards early.

# Notes to financial Statements

For the financial year ended 30 June 2016

Standard /interpretation	Summary	Standard applicable to DFSV for annual reporting periods beginning on	Impact on DFSV financial statements
<i>AASB 9 Financial Instruments</i>	The key changes include the simplified requirements for the classification and measurement of financial assets, a new hedging accounting model and a revised impairment loss model to recognise impairment losses earlier, as opposed to the current approach that recognises impairment only when incurred.	1 Jan 2018	Preliminary assessment has not identified any material impact, it will continue to be monitored and assessed.
<i>AASB 2010–7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)</i>	The requirements for classifying and measuring financial liabilities were added to AASB 9. The existing requirements for the classification of financial liabilities and the ability to use the fair value option have been retained.	1 Jan 2018	Preliminary assessment has not identified any material impact, it will continue to be monitored and assessed.
<i>AASB 2014–1 Amendments to Australian Accounting Standards [Part E Financial Instruments]</i>	Amends various AASs to reflect the AASB's decision to defer the mandatory application date of AASB 9 to annual reporting periods beginning on or after 1 January 2018 as a consequence of Chapter 6 Hedge Accounting, and to amend reduced disclosure requirements.	1 Jan 2018	This has no impact on DFSV.
<i>AASB 2014–7 Amendments to Australian Accounting Standards arising from AASB 9</i>	Amends various AASs to incorporate the consequential amendments arising from the issuance of AASB 9.	1 Jan 2018	This has no impact on DFSV.
<i>AASB 14 Regulatory Deferral Accounts</i>	AASB 14 permits first-time adopters of Australian Accounting Standards who conduct rate-regulated activities to continue to account for amounts related to rate regulation in accordance with their previous GAAP.	1 Jan 2016	This has no impact on DFSV.
<i>AASB 15 Revenue from Contracts with Customers</i>	The core principle of AASB 15 requires an entity to recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to a customer.	1 Jan 2018	Preliminary assessment has not identified any material impact, it will continue to be monitored and assessed.
<i>AASB 2014–5 Amendments to Australian Accounting Standards arising from AASB 15</i>	Amends the measurement of trade receivables and the recognition of dividends. Trade receivables that do not have a significant financing component, are to be measured at their transaction price, at initial recognition.	1 Jan 2017, except amendments to AASB 9 (Dec 2009) and AASB 9 (Dec 2010) apply from 1 Jan 2018	The assessment has indicated that there will be no significant impact for the public sector.
<i>AASB 2015–8 Amendments to Australian Accounting Standards – Effective Date of AASB 15</i>	This Standard defers the mandatory effective date of AASB 15 from 1 January 2017 to 1 January 2018.	1 Jan 2018	This amending standard will defer the application period of AASB 15 to the 2018-19 reporting period in accordance with the transition requirements.
<i>AASB 2016–3 Amendments to Australian Accounting Standards – Clarifications to AASB 15</i>	This Standard amends AASB 15 to clarify the requirements on identifying performance obligations, principal versus agent considerations and the timing of recognising revenue from granting a licence.	1 Jan 2018	This has no impact on DFSV.

Standard /interpretation	Summary	Standard applicable to DFSV for annual reporting periods beginning on	Impact on DFSV financial statements
<i>AASB 16 Leases</i>	The key changes introduced by AASB 16 include the recognition of most operating leases (which are current not recognised) on balance sheet.	1 Jan 2019	Impact to be assessed.
<i>AASB 2014 4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation [AASB 116 &amp; AASB 138]</i>	Amends AASB 116 Property, Plant and Equipment and AASB 138 Intangible Assets to establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset.	1 Jan 2016	Impact to be assessed.
<i>AASB 2014 9 Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements [AASB 1, 127 &amp; 128]</i>	Amends AASB 127 <i>Separate Financial Statements</i> to allow entities to use the equity method of accounting for investments in subsidiaries, joint ventures and associates in their separate financial statements.	1 Jan 2016	This has no impact on DFSV.
<i>AASB 2014 10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture [AASB 10 &amp; AASB 128]</i>	AASB 2014-10 amends AASB 10 <i>Consolidated Financial Statements and AASB 128 Investments in Associates</i> to ensure consistent treatment in dealing with the sale or contribution of assets between an investor and its associate or joint venture.	1 Jan 2016	This has no impact on DFSV.
<i>AASB 2015–1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle [AASB 1, AASB 2, AASB 3, AASB 5, AASB 7, AASB 11, AASB 110, AASB 119, AASB 121, AASB 133, AASB 134, AASB 137 &amp; AASB 140]</i>	Amends the methods of disposal in AASB 5 Non-current assets held for sale and discontinued operations. Amends AASB 7 <i>Financial Instruments</i> by including further guidance on servicing contracts.	1 Jan 2016	Preliminary assessment has not identified any material impact, it will continue to be monitored and assessed.
<i>AASB 2015 6 Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities [AASB 10, AASB 124 &amp; AASB 1049]</i>	The Amendments extend the scope of AASB 124 Related Party Disclosures to not-for-profit public sector entities. A guidance has been included to assist the application of the Standard by not-for-profit public sector entities.	1 Jan 2016	The amending standard will result in extended disclosures on the entity's key management personnel (KMP), and the related party transactions.
<i>AASB 2016–4 Amendments to Australian Accounting Standards – Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-for-Profit Entities</i>	The standard amends AASB 136 Impairment of Assets to remove references to using depreciated replacement cost (DRC) as a measure of value in use for not-for-profit entities.	1 Jan 2017	Preliminary assessment has not identified any material impact, it will continue to be monitored and assessed.

# Notes to financial Statements

For the financial year ended 30 June 2016

	2016 \$	2015 \$
<b>Note 2 – Net result from transactions</b>		
<b>Income from transactions</b>		
<b>(a) Licence and service fees</b>		
Licence fees	4,743,574	4,766,445
Audit and inspection fees	482,507	434,931
Australian Milk Residue Analysis survey	475,143	438,264
<b>Total revenue from licence and service fees</b>	<b>5,701,224</b>	<b>5,639,640</b>
<b>(b) Interest on cash and deposits held</b>	147,142	137,766
<b>(c) Other income</b>	439	12,517
<b>Total income from transactions</b>	<b>5,848,805</b>	<b>5,789,923</b>
<b>Expenses from transactions</b>		
<b>(d) Employee expenses</b>		
Post-employment benefits:		
Defined benefit superannuation	9,398	14,592
Defined contribution superannuation	243,872	213,496
Salaries, wages and employee entitlements (i)	2,630,390	2,363,799
Termination benefits	3,412	32,060
Directors fees	91,261	81,205
Other employee expenses (Payroll tax, WorkCover and FBT)	172,755	150,674
<b>Total employee expenses</b>	<b>3,151,088</b>	<b>2,855,826</b>
<b>(e) Depreciation and amortisation</b>		
Depreciation of plant and equipment (refer to Note 4 (a))	108,928	110,616
Amortisation expense (refer to Note 5)	159,664	130,044
<b>Total depreciation and amortisation</b>	<b>268,592</b>	<b>240,660</b>
Written down value of assets scrapped	–	6,208
<b>Total depreciation and amortisation</b>	<b>268,592</b>	<b>246,868</b>
<b>(f) Other operating expenses</b>		
Supplies and services		
Audit fees (refer to Note 13) (i)	94,450	70,220
Communications	53,035	56,495
Occupancy (excludes rental lease)	58,501	63,193
Insurance	100,370	106,397
Motor vehicles and travel	150,431	122,256
Other administration expenses	133,453	119,020
<b>Total supplies and services</b>	<b>590,240</b>	<b>537,581</b>
Bad and doubtful debts	–	3,417
<b>Total other operating expenses</b>	<b>590,240</b>	<b>540,998</b>

(i) See Note 1 (w) for comparative changes in 2015 disclosure.

	2016 \$	2015 \$
<b>Note 3 – Receivables</b>		
<b>Current</b>		
<b>Contractual</b>		
Trade debtors	148,679	113,155
Accrued interest	26,974	10,416
Other receivables	200	200
Total contractual receivables	175,853	123,771
<b>Statutory</b>		
GST input tax credits recoverable	50,320	55,414
<b>Total current receivables</b>	<b>226,173</b>	<b>179,185</b>

The average credit period for all receivables is 30 days. Refer to note 19 for an ageing analysis and the nature and extent of risk.

## Note 4 – Plant and equipment

### Non-current

#### (a) Carrying amounts

Leasehold improvements – at fair value	253,726	253,726
Less: accumulated depreciation	(189,416)	(138,532)
	64,310	115,194
Furniture and fittings – at fair value	92,132	92,132
Less: accumulated depreciation	(40,438)	(31,636)
	51,694	60,496
Office equipment – at fair value	328,625	383,744
Less: accumulated depreciation	(258,460)	(302,110)
	70,165	81,634
Total plant and equipment – at fair value	674,483	729,602
Less: total accumulated depreciation	(488,314)	(472,278)
<b>Total plant and equipment</b>	<b>186,169</b>	<b>257,324</b>

	Leasehold improvements \$	Furniture and fittings \$	Office equipment \$	Total \$
<b>Opening balance as at 1 July 2014</b>	149,818	69,194	107,183	326,195
Additions	19,974	–	27,979	47,953
Disposals	(6,013)	(195)	–	(6,208)
Depreciation expense	(48,585)	(8,503)	(53,528)	(110,616)
<b>Closing balance as at 30 June 2015</b>	<b>115,194</b>	<b>60,496</b>	<b>81,634</b>	<b>257,324</b>
Additions	–	–	37,773	37,773
Depreciation expense	(50,884)	(8,802)	(49,242)	(108,928)
<b>Closing balance as at 30 June 2016</b>	<b>64,310</b>	<b>51,694</b>	<b>70,165</b>	<b>186,169</b>

# Notes to financial Statements

For the financial year ended 30 June 2016

30 June 2016:	Carrying Amount as at 30 June 2016	Fair value measurement at end of reporting period using:		
		Level 1 *	Level 2 *	Level 3 *
<b>(b) Fair value measurement hierarchy:</b>				
Leasehold improvements	64,310	–	–	64,310
Furniture and fittings	51,694	–	–	51,694
Office equipment	70,165	–	–	70,165
<b>Total plant and equipment - at fair value</b>	<b>186,169</b>	<b>–</b>	<b>–</b>	<b>186,169</b>

30 June 2015:	Carrying Amount as at 30 June 2015	Fair value measurement at end of reporting period using:		
		Level 1 *	Level 2 *	Level 3 *
Leasehold improvements	115,194	–	–	115,194
Furniture and fittings	60,496	–	–	60,496
Office equipment	81,634	–	–	81,634
<b>Total plant and equipment - at fair value</b>	<b>257,324</b>	<b>–</b>	<b>–</b>	<b>257,324</b>

Note:

\* Classified in accordance with the fair value hierarchy, see note 1(b).

There were no transfers between levels during the financial year.

## Leasehold improvements, furniture and fittings and office equipment

Plant and equipment held by DFSV includes leasehold improvements, furniture and fittings and office equipment. Plant and equipment is held at fair value. When plant and equipment is specialised in use, such that it is rarely sold other than as part of a going concern, fair value is determined using the depreciated replacement cost method.

There were no changes in valuation techniques throughout the financial year ended 30 June 2016.

For all assets measured at fair value, the current use is considered the highest and best use.

Reconciliation of Level 3 fair value	Leasehold improvements \$	Furniture and fittings \$	Office equipment \$	Total \$
<b>Opening balance</b>	<b>115,194</b>	<b>60,496</b>	<b>81,634</b>	<b>257,323</b>
Additions	–	–	37,773	37,773
Depreciation expense	(50,884)	(8,802)	(49,242)	(108,928)
<b>Closing balance</b>	<b>64,310</b>	<b>51,694</b>	<b>70,165</b>	<b>186,169</b>

The valuation technique applied to level 3 plant and equipment is depreciated replacement cost and the significant unobservable inputs are cost per unit and useful life of the assets which would result in a higher or lower valuation.

	2016 \$	2015 \$
<b>Note 5 – Intangible assets</b>		
<b>Non-current</b>		
<b>Carrying amount – software development at cost</b>		
Opening balance	738,438	555,216
Additions	198,389	183,222
<b>Closing balance</b>	<b>936,827</b>	<b>738,438</b>
<b>Accumulated amortisation</b>		
Opening balance	(454,908)	(324,864)
Amortisation expense	(159,664)	(130,044)
<b>Closing balance</b>	<b>(614,573)</b>	<b>(454,908)</b>
<b>Total net book value at end of financial year</b>	<b>322,254</b>	<b>283,530</b>

## Note 6 – Payables

### Current

#### Contractual

Supplies and services	403,904	291,784
Salary accruals	72,389	–
Other payables	15,056	10,300
	491,349	302,084

#### Statutory

Taxes payable	72,045	76,654
<b>Total current payables</b>	<b>563,394</b>	<b>378,738</b>

The average credit period of all payables is 30 days. No interest is charged on payables.

Refer to note 19 for a maturity analysis and the nature and extent of risk.

# Notes to financial Statements

For the financial year ended 30 June 2016

	2016 \$	2015 \$
<b>Note 7 – Provisions</b>		
<b>Current provisions</b>		
<i>Employee benefits – annual leave:</i>		
Unconditional and expected to settle within 12 months	205,961	123,662
<i>Employee benefits – long service leave:</i>		
Unconditional and expected to settle wholly before 12 months	15,979	-
Unconditional and expected to settle wholly after 12 months	244,256	205,048
	466,196	328,710
<i>Provisions related to employee benefits on-costs:</i>		
Unconditional and expected to settle wholly before 12 months	2,414	-
Unconditional and expected to settle wholly after 12 months	36,899	51,805
<b>Total current provisions</b>	<b>505,509</b>	<b>380,515</b>
<b>Non-current provisions</b>		
Employee benefits – long service leave	93,942	56,591
Provisions related to employee benefits on-costs	14,191	9,039
<b>Total non-current provisions</b>	<b>108,133</b>	<b>65,630</b>
<b>Total provisions</b>	<b>613,642</b>	<b>446,145</b>

## Note 8 – Superannuation

### Contributions

Employees of DFSV are entitled to receive superannuation benefits and DFSV contributes to both defined benefit and defined contribution plans.

DFSV does not recognise any defined benefit liability in respect of the defined benefit plan. Its only obligation is to pay any shortfall as and when it falls due.

Superannuation contributions for the reporting period are included as part of employee benefits in the comprehensive operating statement.

### a) Information on superannuation funds

#### Vision Super

DFSV makes employer superannuation contributions in respect of some of its employees to the Vision Super (the Fund). The Fund has two categories of membership, each of which is funded differently.

The Fund's accumulation category, Vision MySuper/Vision Super Saver, receives both employer and employee contributions on a progressive basis. Employer contributions are normally based on a fixed percentage over employee earnings as required by Superannuation Guarantee. For the year ended 30 June 2016, this was 9.5% as required under Superannuation Guarantee (SG) legislation. DFSV's commitment to defined contribution plans is limited to making contributions in accordance with DFSV's minimum statutory requirements. No further liability accrues to the employer as the superannuation benefits accruing to employees are represented by their share of the net assets of the Fund.

The Fund's Defined Benefit Plan is a multi-employer sponsored plan. As the Fund's assets and liabilities are pooled and are not allocated by the employer, the actuary is unable to allocate benefit liabilities, assets and costs between employers. As provided under AASB 119 Employee Benefits, DFSV does not use defined benefit accounting for these contributions.



As a multi-employer sponsored plan, the Fund was established as a mutual scheme to allow for the mobility of the workforce between the participating employers without attaching a specific liability to particular employees and their current employer. Therefore, the level of participation of DFSV in the Fund cannot be measured as a percentage compared with other participating employers. Therefore, the Fund Actuary is unable to allocate benefit liabilities, assets and costs between employers for the purposes of AASB 119.

DFSV makes the following contributions:

#### **i) Regular contributions**

On the basis of the results of the 2015 interim actuarial investigation conducted by the Fund Actuary, DFSV makes employer contributions to the Fund's Defined Benefit category at rates determined by the Fund's Trustee. For the year ended 30 June 2016, the rate is 9.5% of members' salaries (2015: 9.5%). This rate is expected to increase in line with the required Superannuation Guarantee contribution rate.

#### **ii) Funding calls**

If the Defined Benefit category is in an unsatisfactory financial position at an actuarial investigation or the Defined Benefit category's VBI is below its shortfall limit at any time other than the date of the actuarial investigation, the Defined Benefit category has a shortfall for the purposes of SPS 160 and the Fund is required to put a plan in place so that the shortfall is fully funded within three years of the shortfall occurring. The Fund monitors its VBI on a quarterly basis and the Fund has set its shortfall limit at 97%

In the event that the Fund Actuary determines that there is a shortfall based on the above requirement, the Fund's participating employers (including DFSV) are required to make an employer contribution to cover the shortfall.

Using the agreed methodology, the shortfall amount is apportioned between the participating employers based on pre- 1 July 1993 and post- 30 June 1993 service liabilities of the Fund's Defined Benefit category, together with the employer's payroll at 30 June 1993 and at the date the shortfall has been calculated.

Due to the nature of the contractual obligations between the participating employers and the Fund, and that the Fund includes lifetime pensioners and their reversionary beneficiaries, it is unlikely that the Fund will be wound up.

If there is a surplus in the Fund, the surplus cannot be returned to the participating employers.

In the event that a participating employer is wound-up, the defined benefit obligations of that employer will be transferred to that employer's successor.

#### **2015 interim actuarial investigation surplus amounts**

The funds interim actuarial investigation as at 30 June 2015 identified the following in the defined benefit category of which DFSV is a contributing employer:

- A VBI surplus of \$130.8 million: and
- A total service liability surplus of \$239 million

The VBI surplus means that the market value of the fund's assets supporting the defined benefit obligations exceed the vested benefits that the defined benefit members would have been entitled to if they had all exited on 30 June 2015.

The total service liability surplus means that the current value of the assets in the Fund's defined benefit category plus expected future contributions exceeds the value of expected future benefits and expenses.

#### **Funding arrangements**

DFSV makes employer contributions to the Defined Benefit category of the Fund at rates determined by the Trustee on the advice of the Fund Actuary.

As at 30 June 2015, an interim actuarial investigation was held as the Fund provides lifetime pensions in the Defined Benefit category. The vested benefit index (VBI) of the Defined Benefit category of which DFSV is a contributing employer was 105.8%. To determine the VBI, the Fund Actuary used the following long-term assumptions:

Net investment returns	7.0% pa.
Salary information	4.25% pa.
Price inflation (CPI)	2.5% pa.

Vision super has advised that the estimated VBI as at 30 June 2016 was 102%.

# Notes to financial Statements

For the financial year ended 30 June 2016

The VBI is to be used as the primary funding indicator. Because the VBI was above 100%, the 2015 interim actuarial investigation determined the Defined Benefit category was in a satisfactory financial position and that no change was necessary to the Defined Benefit category's funding arrangements from prior years.

## Emergency Services and State Super Fund – (formerly Government Superannuation Fund)

DFSV pays employer superannuation contributions of 9.5% of salaries in respect of its members. The Consolidated Fund of the Victorian State Government is responsible for the unfunded liability related to employees of DFSV. This scheme is closed to new members. The Fund is a defined benefits plan.

## Victorian Superannuation Fund – VicSuper

New employees of DFSV including casuals are covered by VicSuper as the default fund unless they exercise their right to choice of fund. In accordance with the Superannuation Guarantee Charge Act 1992, DFSV paid a 9.5% (2015: 9.5%) superannuation guarantee levy for employees and members to VicSuper for the financial period. There is no unfunded liability in respect of this scheme. The Fund is a defined contributions plan.

Employer superannuation contributions payable by DFSV to all schemes were calculated as a percentage of base salary.

## Other superannuation funds

All other funds are defined contribution plans. DFSV paid a 9.5% (2015: 9.5%) superannuation guarantee levy for employees and members of these funds for the financial period.

## Superannuation contributions

The name, details and amounts expensed in relation to the major employee superannuation funds and contributions made by DFSV are as follows:

Fund	Paid contributions for the year		Contributions outstanding at year end	
	2016	2015	2016	2015
<b>Defined benefit plans:</b>				
Vision Super	1,152	6,562		
Emergency Services Superannuation	8,915	7,361		669
<b>Defined contribution plans:</b>				
Vic Super	108,439	97,975	8,449	9,198
Australian Super	21,617	25,671	2,084	2,612
Other	105,861	70,495	9,637	7,545

## b) Loans

DFSV has no loans with any of the superannuation funds.

## Note 9 – Commitments for expenditure

The following commitments have not been recognised as liabilities in the financial statements.

### a) Outsourcing commitments

There are no commitments under outsourcing contracts in existence and payable as at 30 June 2016 recognised as liabilities (2015: Nil).

### b) Lease commitments

Operating leases relate to lease rental expense commitments as at 30 June 2016 and are in respect of premises at Camberwell, office equipment and motor vehicles. Operating leases generally provide DFSV with a right of renewal at which time all terms are renegotiated.

DFSV entered into the first term of the contract to lease premises at Level 2, 969 Burke Road, Camberwell, from 1 April 2012 for a period of five years with an option to renew on 1 April 2017 for the forthcoming five-year commitment. The operating commitment 1 July 2016 to 1 April 2017 is \$119,096. GST and annual fixed rate increases of 3.5% on the office premises are included in the following figures with office equipment and motor vehicles.

	2016 \$	2015 \$
<b>Non-cancellable operating lease payables (includes GST)</b>		
Not longer than one year	192,610	242,468
Longer than one year and not longer than five years	103,130	213,461
<b>Total operating leasing</b>	<b>295,739</b>	<b>455,928</b>

# Notes to financial Statements

For the financial year ended 30 June 2016

	2016 \$	2015 \$
<b>Note 10 – Cash flow information</b>		
<b>(a) Cash and cash equivalents</b>		
Cash on hand	300	675
Cash at bank	1,106,527	475,077
Term deposits (less than 3 months)	3,300,000	5,589,403
Total cash and deposits disclosed in the balance sheet	4,406,827	6,065,155
<b>Cash and cash equivalents as per cash flow statement</b>	<b>4,406,827</b>	<b>6,065,155</b>

## (b) Reconciliation of net result for the financial year to net cash flows from operating activities

Net result for the financial year	8,838	819,461
<i>Non-cash movements:</i>		
(Gain)/loss on sale or disposal of non-current assets	–	6,208
Depreciation and amortisation of non-current assets	268,592	240,660
<i>Movements in assets and liabilities:</i>		
<i>(Increase)/decrease in assets:</i>		
Receivables	(46,988)	(858)
Pre-payments	(4,762)	(3,495)
<i>Increase/(decrease) in liabilities:</i>		
Payables	184,656	107,444
Provisions	167,498	24,196
<b>Net cash from operating activities</b>	<b>577,834</b>	<b>1,193,616</b>

## Note 11 – Responsible persons

In accordance with the Ministerial Directions issued by the Minister for Finance under the Financial Management Act 1994, the following disclosures are made regarding responsible persons for the reporting period.

Responsible Ministers:

Minister for Agriculture. The Honourable Jaala Pulford MP, 1 July 2015–30 June 2016.

### a) Board members

The name of persons who were board members of DFSV at any time during the year are as follows:

Peter Bailey	1 July 2015–30 June 2016	Keith Mentiplay	1 July 2015–11 October 2015
Peter Moloney	1 July 2015–30 June 2016	Julie Simons*	12 October 2015–30 June 2016
Grant Davies	1 July 2015–11 April 2016	Michael Blake	12 October 2015–30 June 2016
Margaret Darton*	1 July 2015–11 October 2015	Josephine Davey	12 October 2015–30 June 2016
Zoe Attwood	1 July 2015–11 October 2015	Helen Dornom	12 October 2015–30 June 2016
Barry Lierich	1 July 2015–11 October 2015	Michael Taylor	12 April 2016–30 June 2016

Two Board members (identified by \* above) are excluded from the income band remuneration table shown at Note 11 (b) below and are remunerated by the Department of Economic Development, Jobs, Transport and Resources.

**b) Accountable officer**

Jennifer McDonald held the position of Accountable Officer from 1 July 2015 to 30 June 2016.

Remuneration received or receivable by the accountable officer and other responsible persons in connection with DFSV during the year was in the range:

Income band	Total remuneration	
	2016 \$	2015 \$
\$0–\$9,999	7	2
\$10,000–\$19,999	2	4
\$20,000–\$29,999	1	–
\$30,000–\$39,999	–	1
\$220,000–\$229,999	–	1
\$240,000–\$249,999	1	–
Total numbers	11	8
<b>Total amount</b>	<b>\$341,966</b>	<b>\$314,939</b>

Remuneration relating to the Minister is reported in the financial statements of the Department of Premier and Cabinet.

No loans have been made, guaranteed or secured by DFSV to or for any Board member or related party of a Board member of DFSV.

There have been no transactions with any Board members other than those related to employee relationships in carrying out the duties of Board members (other than Licence Fees). Where Board members are Licensees of DFSV, the standard trading terms apply.

**c) Related party disclosures**

The Board members of DFSV are reimbursed for expenses incurred in attending board and committee meetings, and for other incidental costs on terms and conditions no more favourable than those with which it is reasonable to expect DFSV would have adopted if dealing with the Board members at arm's length in similar circumstances.

**d) Insurance premiums**

During the financial year, DFSV paid an insurance premium of \$30,292 (2015: \$34,439) in respect of a contract insuring the Board members and executive officers of DFSV against a liability arising as a result of work performed in their capacity as Board members or executive officers

# Notes to financial Statements

For the financial year ended 30 June 2016

## Note 12 – Remuneration of executives

The number of DFSV executive officers, other than the Accountable Officer, and their total remuneration are shown in the first two columns in their relevant annual remuneration bands.

The executive officers' base remuneration is shown in the third and fourth columns. Base remuneration excludes bonus payments, long-service leave, redundancy payments and retirement benefits.

Income band	Total remuneration		Base remuneration	
	2016 No.	2015 No.	2016 No.	2015 No.
\$140,000 - \$149,999	–	1	–	2
\$150,000 - \$159,999	2	1	2	1
\$160,000 - \$169,999	–	1	1	–
\$170,000 - \$179,999	1	–	–	–
Total numbers	3	3	3	3
Total annualised employee equivalent (AEE)	3	3	3	3
<b>Total amount</b>	<b>\$487,803</b>	<b>\$462,751</b>	<b>\$470,905</b>	<b>\$439,669</b>

Annualised employee equivalent (AEE) is based on working 38 ordinary hours per week over the 52-week reporting period.

There were no contractors engaged with management responsibility for the reporting period.

	2016 \$	2015 \$
<b>Note 13 – Remuneration of auditors</b>		
Internal audit fees	73,650	49,920
External audit fees (Victorian Auditor General's Office)	20,800	20,300
<b>Total audit fees</b>	<b>94,450</b>	<b>70,220</b>

## Note 14 – Ex-gratia expenses

There were no ex-gratia expenses incurred during the financial year ended 30 June 2016 (2015: Nil).

## Note 15 – Charge over assets

There are no liabilities secured by a charge over the assets of DFSV.

## Note 16 – Segment information

DFSV operates predominantly in one business and geographical segment. DFSV is responsible for regulating the safety of all dairy foods produced in Victoria for domestic and export markets.

## Note 17 – Contingent assets and contingent liabilities

### Contingent assets

There were no contingent assets at the reporting date (2015: Nil).

### Contingent liabilities

DFSV has an ongoing obligation to share in the future defined benefits superannuation liabilities of the Vision Super Pty Ltd Superannuation Fund. Favourable or unfavourable variations may arise should the claims experience of the fund differ from the assumptions made by the Fund's actuary in estimating the Fund's accrued benefits liability.

## Note 18 – subsequent events

There are no material events subsequent to balance date that significantly affect the operation, the results, or the state of affairs of DFSV.

## Note 19 – Financial instruments

### a) Significant accounting policies

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

### b) Categorisation of financial instruments

	Note	Carrying amount 2016 \$	Carrying amount 2015 \$
<b>Contractual financial assets:</b>			
Cash and deposits	10(a)	4,406,827	6,065,155
Other financial assets	1(k)	2,000,000	–
Receivables	3	175,853	123,771
<b>Total contractual financial assets</b>		<b>4,582,680</b>	<b>6,188,926</b>
<b>Contractual financial liabilities:</b>			
Payables	6	491,349	302,084
<b>Total contractual financial liabilities</b>		<b>491,349</b>	<b>302,084</b>

# Notes to financial Statements

For the financial year ended 30 June 2016

## c) Credit risk

The maximum exposure to credit risk at balance date to each class of financial assets is the carrying amount as disclosed in the balance sheet.

DFSV does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by DFSV.

### *Financial assets that are either past due or impaired*

Currently DFSV does not hold any collateral as security nor credit enhancements relating to any of its financial assets.

As at the reporting date, there is no evidence to indicate that any of the financial assets were impaired.

The following table outlines DFSV's exposure to credit risk.

### Interest rate exposure and aging analysis of financial assets

2016	Note	Weighted average interest rate %	Carrying amount \$	Fixed interest rate \$	Variable interest rate \$	Non-interest bearing \$	Not past due and not impaired \$	Less than one month \$	1-3 Months \$	3 months to one year \$	1-5 years \$
<b>Financial assets</b>											
Cash and deposits	10(a)	2.36%	4,406,827	3,300,000	1,106,527	300					
Other financial assets	1(k)	2.41%	2,000,000	2,000,000							
Receivables			175,853	–	–	175,853	155,718	18,793	1,342	–	–
<b>Total financial assets</b>			<b>6,582,680</b>	<b>5,300,000</b>	<b>1,106,527</b>	<b>176,153</b>	<b>155,718</b>	<b>18,793</b>	<b>1,342</b>	<b>–</b>	<b>–</b>
<b>2015</b>											
Financial assets											
Cash and deposits	10(a)	2.50%	6,065,155	5,000,000	589,403	475,752					
Receivables			123,771	10,416	–	113,355	97,443	19,767	5,766	795	–
<b>Total financial assets</b>			<b>6,188,926</b>	<b>5,010,416</b>	<b>589,403</b>	<b>589,107</b>	<b>97,443</b>	<b>19,767</b>	<b>5,766</b>	<b>795</b>	<b>–</b>

## d) Liquidity risk

Liquidity risk arises when DFSV is unable to meet its financial obligations as they fall due. DFSV operates under the Government fair payments policy of settling financial obligations within 30 days and in the event of a dispute, makes payments within 30 days from the date of resolution. It also continuously manages risk through monitoring future cash flows and maturities planning to ensure adequate holding of high quality liquid assets and dealing in highly liquid markets.

DFSV's exposure to liquidity risk is deemed insignificant based on prior periods' data and current assessment of risk.

The following table discloses the contractual maturity analysis for DFSV's financial liabilities:

2016	Note	Weighted average interest rate %	Carrying amount \$	Interest rate exposure			Maturity dates			
				Fixed interest rate \$	Variable interest rate \$	Non-interest bearing \$	Less than one month \$	1-3 Months \$	3 months to one year \$	1-5 years \$
<b>Financial liabilities</b>										
Payables	6	0.00%	491,349	–	–	491,349	–	–	–	–
<b>Total financial liabilities</b>			<b>491,349</b>	<b>–</b>	<b>–</b>	<b>491,349</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>2015</b>										
Financial liabilities										
Payables	6	0.00%	302,084	–	–	302,084	–	–	–	–
<b>Total financial liabilities</b>			<b>302,084</b>	<b>–</b>	<b>–</b>	<b>302,084</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>



## e) Market risk

DFSV's exposure to market risk is through interest rate risk.

### Interest rate risk

DFSV's exposure to interest rate risk on its cash and term deposits is minimal. Risk minimisation is achieved by undertaking fixed rate financial instruments with relatively even maturity profiles. For financial liabilities, DFSV mainly undertakes financial liabilities with relatively even maturity profiles. DFSV holds only insignificant amounts of financial instruments at a floating rate.

### Sensitivity disclosure analysis

Taking into account past performance, DFSV considers that a shift of +0.50 per cent or -0.50 per cent in market interest rates (AUD) is 'reasonably possible' over the next twelve months. Management has assessed as insignificant the impact that such shift in the interest rate would have on net operating result and equity of DFSV, if the above movements were to occur.

	Note	Carrying amount \$	Interest rate risk			
			-0.5% (-50 basis points)		0.5% (+50 basis points)	
2016			Equity \$	Net result \$	Equity \$	Net result \$
<b>Contractual financial assets:</b>						
Cash and deposits						
Cash at bank	10(a)	1,106,527	(5,533)	(5,533)	5,533	5,533
<b>Total impact</b>		<b>1,106,527</b>	<b>(5,533)</b>	<b>(5,533)</b>	<b>5,533</b>	<b>5,533</b>
<b>2015</b>						
<b>Contractual financial assets:</b>						
Cash and deposits						
Short-term deposits (at call)	10(a)	589,403	(2,947)	(2,947)	2,947	2,947
<b>Total impact</b>		<b>589,403</b>	<b>(2,947)</b>	<b>(2,947)</b>	<b>2,947</b>	<b>2,947</b>

## f) Fair Value

The aggregate net fair values of financial assets and liabilities approximate their carrying values in the balance sheet and notes to the financial statements.

# Declaration by the chair, chief executive officer and chief finance and accounting officer

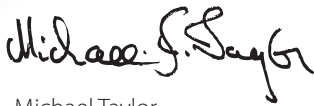
For the financial year ended 30 June 2016

The attached financial statements for Dairy Food Safety Victoria have been prepared in accordance with Standing Direction 4.2 of the Standing Directions of the Minister for Finance 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 to the financial statements, presents fairly the financial transactions during the year ended 30 June 2016 and financial position of Dairy Food Safety Victoria as at 30 June 2016.

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 18 August 2016.



Michael Taylor  
Chair



Jennifer McDonald  
Chief Executive Officer



Daryl Glover  
Chief Finance and Accounting Officer

Melbourne  
18 August 2016

## INDEPENDENT AUDITOR'S REPORT

### To the Board Members, Dairy Food Safety Victoria

#### *The Financial Report*

I have audited the accompanying financial report for the year ended 30 June 2016 of Dairy Food Safety Victoria which comprises the comprehensive operating statement, balance sheet, statement of changes in equity, cash flow statement, notes comprising a summary of significant accounting policies and other explanatory information, and the declaration by the Chair, Chief Executive Officer and Chief Finance and Accounting Officer.

#### *The Board Members' Responsibility for the Financial Report*

The Board members of Dairy Food Safety Victoria are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards, and the financial reporting requirements of the *Financial Management Act 1994*, and for such internal control as the Board members determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

As required by the *Audit Act 1994*, my responsibility is to express an opinion on the financial report based on the audit, which has been conducted in accordance with Australian Auditing Standards. Those standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The audit procedures selected depend on judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, consideration is given to the internal control relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Board Members, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## Independent Auditor's Report (continued)


### *Independence*

The Auditor-General's independence is established by the *Constitution Act 1975*. The Auditor-General is not subject to direction by any person about the way in which his powers and responsibilities are to be exercised. In conducting the audit, I and my staff and delegates complied with all applicable independence requirements of the Australian accounting profession.

### *Opinion*

In my opinion, the financial report presents fairly, in all material respects, the financial position of Dairy Food Safety Victoria as at 30 June 2016 and its financial performance and cash flows for the year then ended in accordance with applicable Australian Accounting Standards, and the financial reporting requirements of the *Financial Management Act 1994*.

MELBOURNE  
24 August 2016



for Dr Peter Frost  
Acting Auditor-General

# Disclosure index

The annual report of Dairy Food Safety Victoria is prepared in accordance with all relevant Victorian legislations and pronouncements. This index has been prepared to facilitate identification of compliance with statutory disclosure requirements.

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# Dairy Food Safety Victoria



## Dairy Food Safety Victoria

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