

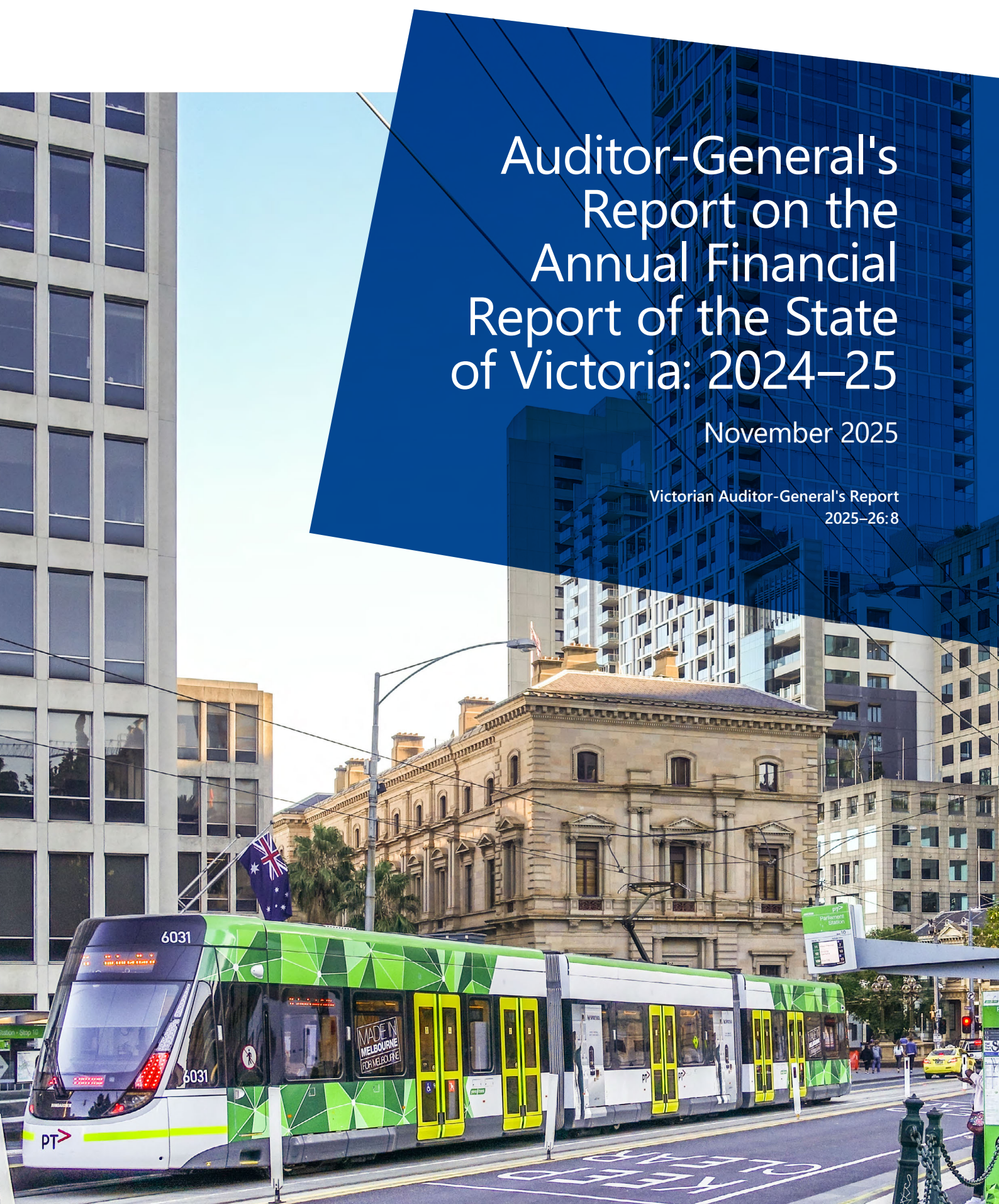
VAGO

Victorian Auditor-General's Office

Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2024–25

November 2025

Victorian Auditor-General's Report
2025–26: 8



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Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2024–25

Published by order, or under the authority,
of the Parliament of Victoria
November 2025

The Hon Shaun Leane MLC
President
Legislative Council
Parliament House
Melbourne

The Hon Maree Edwards MP
Speaker
Legislative Assembly
Parliament House
Melbourne

Dear Presiding Officers

Under the provisions of the *Audit Act 1994*, I transmit my report *Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2024–25*.

Yours faithfully



Andrew Greaves
Auditor-General
24 November 2025

The Victorian Auditor-General's Office (VAGO) acknowledges the Traditional Custodians of the lands and waters throughout Victoria. We pay our respects to Aboriginal and Torres Strait Islander communities, their continuing culture, and to Elders past and present.

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Report snapshot

About this report

In this report, we share outcomes of our audit on the state's financial report and our independent perspective on the state's financial outcomes and risks to fiscal sustainability.

Audit outcomes (Section 2)

We issued a clear audit opinion on the 2024–25 Annual Financial Report of the State of Victoria (AFR), confirming that the state's reported financial outcomes are reliable.

We issued clear opinions on 28 of the 30 material entities' separate financial reports, which together represent the majority of the state's transactions, balances and disclosures. However, we continued to modify our audit opinion on VicTrack's financial report because of how it accounts for its lease arrangement of transport infrastructure assets with the Department of Transport and Planning. This did not impact the AFR because the error was corrected during its preparation.

This year, contentious issues at the Department of Justice and Community Safety, Department of Jobs, Skills, Industry and Regions and Greater Western Water delayed the completion of material entity financial reports and audits compared with last year. At the time of this report, Greater Western Water's financial report and audit remain outstanding. Despite these delays, our AFR opinion remained unaffected because the issues were not significant.

Financial outcomes for the general government sector and risks to fiscal sustainability (Section 3)

This year, the general government sector (GGS) reported a net operating loss of \$2.6 billion. This is an improvement on last year's \$4.2 billion loss but still exceeds the operating loss forecast in the 2024–25 state Budget by \$400 million. This result brings total combined losses over the last 6 years to \$50.6 billion.

Operating revenue and income increased by \$8.3 billion, driven largely by higher tax income of \$2.0 billion and additional Australian Government grants of \$5.5 billion. Operating expenses also rose by \$6.7 billion, with employee expenses increasing by \$2.5 billion, higher interest expenses of \$1.1 billion and more operating costs of \$1.6 billion.

The higher income tax and federal funding contributed to an operating cash surplus this year of \$3.2 billion, in addition to the GGS receiving a \$0.7 billion dividend from the Transport Accident Commission.

The GGS maintained its fiscal cash deficit this year, a trend since 2016–17 that is expected to continue, further weakening the state's financial resilience. These persistent deficits highlight the state's reliance on debt to fund its capital infrastructure program.

Ongoing net operating losses and fiscal cash deficits pose significant risks to the state's long-term financial sustainability.

Gross debt rose from \$168.8 billion last year to \$187.9 billion and is projected to reach \$236.6 billion by 30 June 2029. Over the last decade, debt growth has consistently outpaced GGS revenue and state economic growth, again a trend expected to continue. Net debt was 23.7 per cent of gross state product at 30 June 2025 and is forecast to reach 24.9 per cent by 30 June 2029.

Since the government's launch of the COVID Debt Repayment Plan in 2023–24, which aimed to offset the cost of servicing \$31.5 billion in pandemic-related debt, the plan has raised \$4.3 billion through COVID debt levies and generated \$1.8 billion from land sales and investment returns. However, the government has not publicly reported progress on this plan since its introduction.

Emerging risks continue to threaten the state's ability to meet short-term financial targets, deliver committed savings initiatives and maintain long-term sustainability. These risks exist in the GGS and beyond, requiring close attention and integration into longer-term financial management.

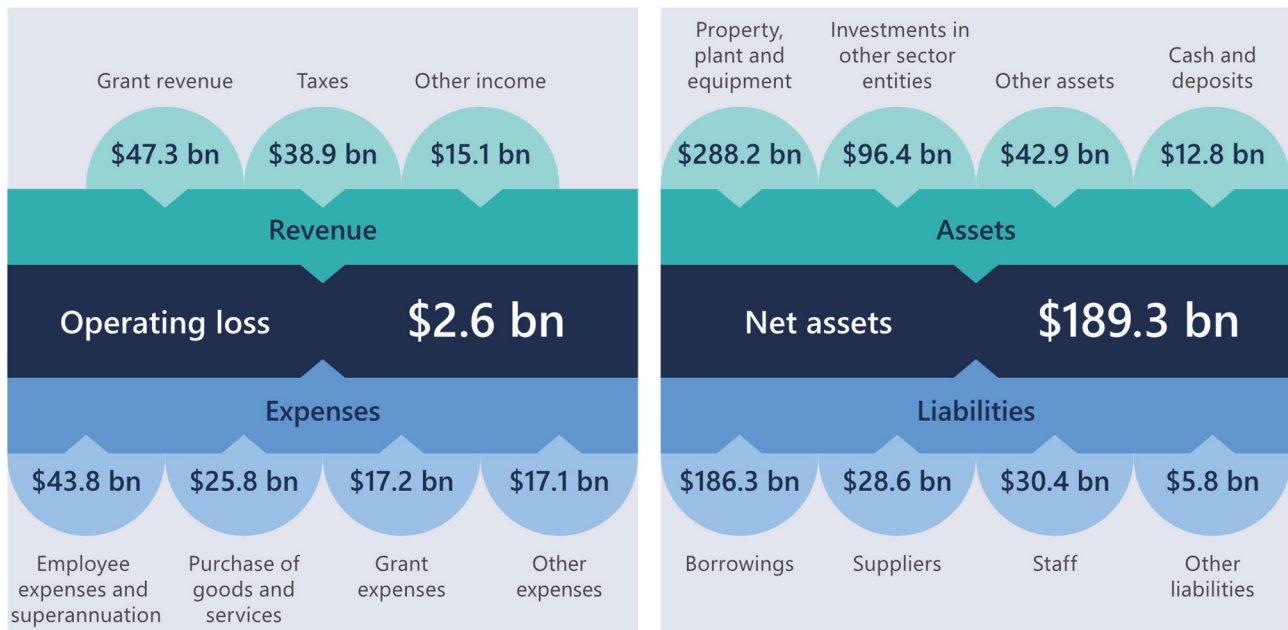
The government has taken initial steps to address the financial challenges faced. However, these focus on addressing immediate fiscal pressures to achieve short-term financial objectives, rather than focusing on strengthening long-term financial resilience. To that end, our recommendations from last year's report remain relevant.

Key issues from our material entities audits (Section 4)

We continue to find weaknesses in IT system controls at material entities, including system access, authentication and monitoring. Many prior-year IT issues remain unresolved. This ongoing pattern reflects weaknesses in entities' control environments and highlights the need for stronger management attention.

Some material entities outsource services to private or public providers that affect financial practices. These entities do not appropriately plan how they will gain assurance over the service providers' control environment or fail to set up proper oversight mechanisms. Without clear oversight, these entities face governance, financial and service delivery risks.

Key numbers: general government sector



Source: VAGO.

Our recommendations

We consulted with the audited agencies and considered their views when reaching our conclusions. The agencies' full responses are in Appendix A.

This year's recommendations

Recommendations			Agency response(s)
Department of Treasury and Finance	1	Work with the government to regularly publish updates on its progress against the COVID Debt Repayment Plan (see Section 3).	Noted
Material entities	2	Material entities responsible for administering trust accounts assess whether the current spending patterns are effectively achieving the purposes for which these funds were established (see Section 3).	-
	3	- Consider the requirements relating to <i>Standing Directions 2018 Under the Financial Management Act 1994</i> Standing Direction 3.4: Internal control system and Instruction 10 – Managing shared services and outsourcing arrangements when entering into such arrangements and outline those requirements clearly in the service level agreements. - Obtain an appropriate level of assurance annually as required by the <i>Standing Directions 2018 under the Financial Management Act 1994</i> over the outsourced service providers and shared services and document it. See Section 4.	-
	4	Strengthen transparency by delivering targeted training and practical guidance to staff responsible for preparing key management personnel and related party disclosures (see Section 4).	-

Follow-up on prior-year recommendations

Recommendations			Agency response(s)	Year raised	Status in 2024–25
Department of Treasury and Finance	1	Consider why quality issues with information provided by material entities arise and determine whether further training and guidance are required.	Accepted	2022–23	In progress Quality of financial information has improved. The Department of Treasury and Finance (DTF) ran: - further training for agencies in May 2025 - debrief meetings after the 2023–24 Annual Financial Report of the State of Victoria (AFR) - meetings prior to the 2024–25 AFR with departments.
	2	Work with the government to set specific targets and precise timing of achieving its key financial measures and targets of net debt to gross state product and interest expense to revenue.	Noted	2022–23	Not implemented

Recommendations	Agency response(s)	Year raised	Status in 2024–25
3	Work with the government to outline its debt management strategy including when and how the state will be able to start to pay down the debt that it has and plans to accumulate.	Noted	2022–23
			In progress The government aims to manage debt levels in line with the state’s economic growth. In this regard, it plans to reduce net debt as a share of gross state product (GSP). At 30 June 2025, net debt was 23.7 per cent of GSP. The government forecasts: • 25.1 per cent by 30 June 2026 • 25.2 per cent by 30 June 2027 • 25.0 per cent by 30 June 2028 • 24.9 per cent by 30 June 2029. The government’s 10-year COVID Debt Repayment Plan, introduced to reduce the cost of servicing the \$31.5 billion in pandemic-related debt, has continued for another year. It collected additional levies on payroll tax and landholdings and generated investment income from the Victorian Future Fund. The government has not publicly reported progress against the plan since it commenced. Refer to Section 3 of this report.
4	Work with the government to:	Noted	2023–24
	• better articulate its longer-term financial plan that prioritises the management of existing and emerging financial risks • use this long-term plan as a framework to anchor government decision-making in the allocation of public resources to emphasise alignment with financial and economic strategies • transparently report this plan and ongoing progress against the plan to Parliament and the public.		Not implemented
5	Enhance its public reporting to demonstrate progress against saving initiatives and efficiency dividends outlined in the state Budgets and the realisation of their benefits.	Noted	2023–24
			Not implemented

Recommendations		Agency response(s)	Year raised	Status in 2024–25	
Department of Premier and Cabinet	6	Work with the government, departments and state-controlled entities to reconsider the tabling schedule of annual reports, to reduce the information burden on Parliamentarians and the Victorian community, of tabling high volumes at the same time.	Not accepted	2022–23	In progress Recent amendments to the <i>Financial Management Act 1994</i> changed the annual report tabling requirements, which may help address this recommendation. We will continue to monitor the timing of annual report tabling to assess whether the revised requirements have improved outcomes and met the recommendation. Refer to Section 2 of this report.
	7	Undertake a post-implementation review of the 2022 machinery of government changes, including: - working together with impacted departments to understand collective experiences - sharing findings and lessons learnt with the government to improve planning, implementing and operationalising future machinery of government changes.	Accepted	2023–24	In progress The Department of Premier and Cabinet (DPC) has formed a steering committee with relevant agencies to identify opportunities to improve how they: - provide government with advice and clarify on the merits and impacts of potential machinery-of-government (MoG) changes - implement MoG changes faster and more effectively - support departmental implementation. DPC expects to finalise and report on the post-implementation review of the 2022 MoG change in early 2026.
Department of Jobs, Skills, Industry and Regions	8	Appoint an independent evaluator to assess and report on the effectiveness of the Business Costs Assistance Program and Licensed Hospitality Venue Fund grants programs and whether value for money was achieved. The evaluation should identify lessons learnt and make recommendations for future programs.	Accepted	2022–23	Implemented The Department of Jobs, Skills, Industry and Regions has: - engaged an evaluator to assess and report on the effectiveness of the grant programs - conducted further analysis to support a targeted recovery campaign for COVID-19 grants. It has recognised a total of \$72.5 million in ex-gratia payments made to ineligible applicants from 2020–21 to 2024–25 - released new policies to support its grant programs. We will consider undertaking assurance work on these actions and their implementation in the future.
Material entities	9	We recommend relevant material entity chief financial officers: develop and implement robust quality assurance	–	2023–24	In progress Quality of financial information has improved as evidenced by no material

Recommendations	Agency response(s)	Year raised	Status in 2024–25
processes over the financial information provided to the Department of Treasury and Finance - ensure: - internal processes are documented well enough to enable a new starter to understand what submission processes and obligations are required by the Department of Treasury and Finance, how these processes are to be done and by when - adequate training and knowledge transfer occurs for all key finance staff to support the process.			quality issues identified this year. We will continue to monitor progress.
10 Prioritise the resolution of information technology control deficiencies that pose a risk to achieving complete and accurate financial reporting, business objectives or compliance with legislation.	–	2022–23	In progress Information technology deficiencies continue to exist at material entities: 45 prior period IT deficiencies were resolved during the financial year 38 IT control deficiencies remain unresolved. Refer to Section 4 of this report.

1.

Why we do this report and what we look at

In this report, we share outcomes of our audit on the state's Annual Financial Report (AFR) and share our independent perspective on the state's financial outcomes and risks to fiscal sustainability.

We also share the audit outcomes of state-controlled material entities that make up significant parts of the state's finances.

Our audit opinions provide confidence that the financial reports of the state and material entities are reliable to use and inform decision-making.

The Annual Financial Report

The Department of Treasury and Finance (DTF) prepares the state's AFR, which is the state's consolidated financial report. Also known as the Financial Report (Incorporating Quarterly Financial Report No. 4), the AFR presents the financial results for the State of Victoria for a given reporting period. It consolidates data from over 270 state-controlled entities across 3 sectors that contribute to the consolidated financial results, as outlined in Figure 1.

The AFR presents the financial information for both the general government sector (GGS) and the State of Victoria.

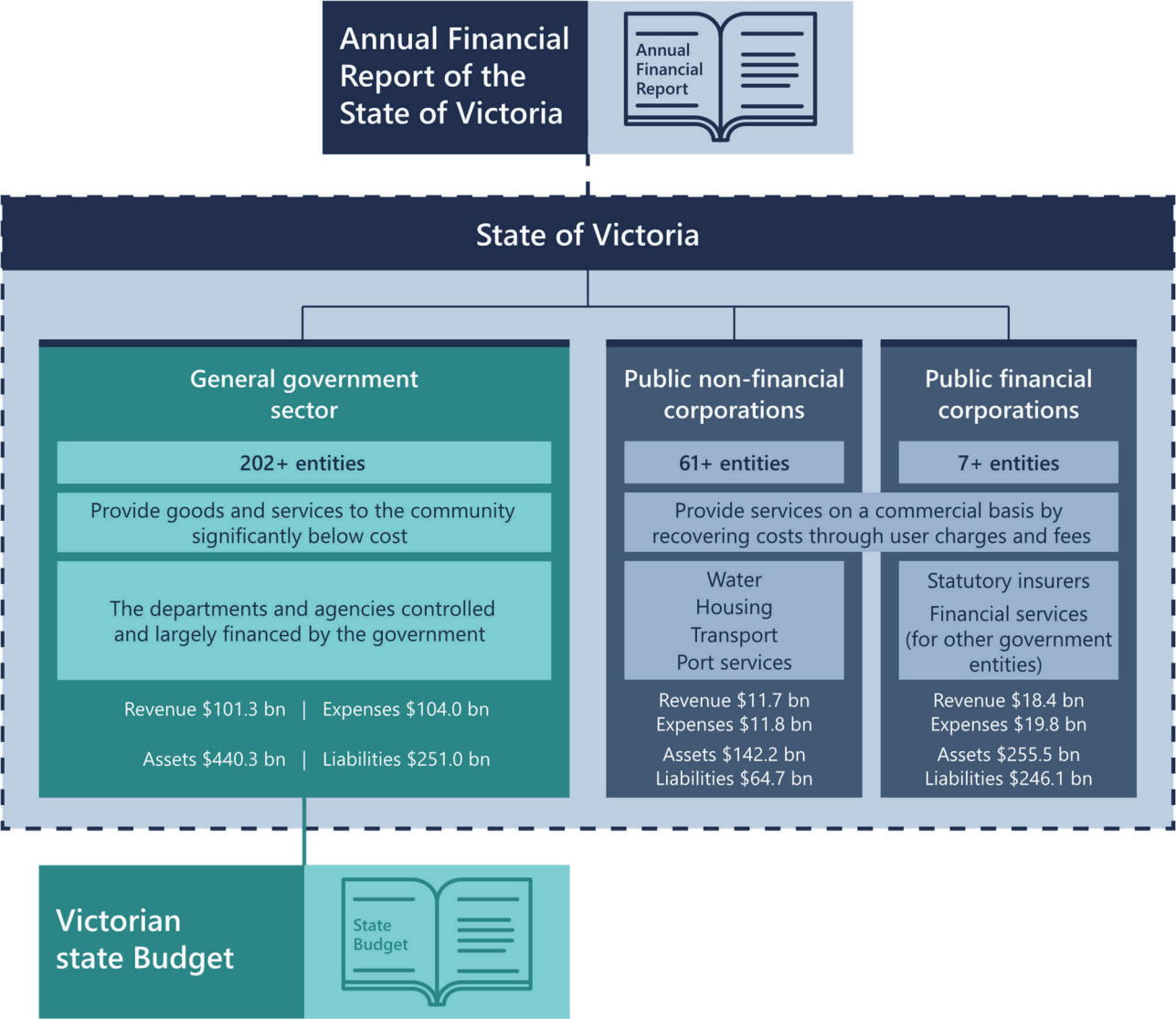
We audit the AFR and issue an audit opinion to provide assurance that the state's published financial outcomes are reliable. This assurance means Parliament and the Victorian community can confidently use the AFR to understand the state's financial outcomes and, when relevant, make informed decisions.

The AFR also discloses how money has been spent from the public account in accordance with the *Financial Management Act 1994*.

The public account

The public account is the Victorian Government's official bank account. The *Financial Management Act 1994* sets the legal requirements for government spending from the public account.

Figure 1: Victorian state sectors



Note: Figures exclude consolidation eliminations made when combining and preparing consolidated financial reports for entities under common control.
Source: VAGO.

Entities excluded from the AFR

The AFR only includes state-controlled entities.

Other public sector entities that we audit are excluded from the AFR because the state does not control them for financial reporting purposes.

The AFR excludes ...	because ...
local government	it is a separate tier of government. Councils are elected by and accountable to their communities.
universities	they are mainly funded by the Australian Government. The state appoints some university council members.
denominational hospitals	they are private public health service providers and have their own governance arrangements.
state superannuation funds	their net assets are members' property. But any net asset shortfalls related to certain defined benefit scheme entitlements are a state obligation and are reported as a liability in the AFR.
registered community health centres and aged-care providers	they have various funding streams, including from the Australian Government and own-source revenue, with their own governance arrangements.

These entities prepare separate financial reports and have them audited.

Material entities in the AFR

Each year we audit and provide separate audit opinions on the financial reports of the state-controlled entities that are consolidated into the AFR.

In 2024–25, there were 30 material entities that accounted for most of the state's financial transactions and balances. We primarily focus on the financial transactions and balances of these material entities when forming our opinion on the AFR.

Material entity

We determine which entities within the Victorian Government are material to the AFR. Material entities are determined by the size, nature and circumstances of that entity. Material entities make up a significant portion of the state's transactions, balances and disclosures.

Reporting our insights on the state's finances

This report is the only report to Parliament that we must make under section 57(1) of the *Audit Act 1994*. The Act provides that we may comment on and make recommendations about the:

- effective and efficient management of public resources
- proper accounts and records.

We use this report to provide our independent perspective on the state's finances.

We also prepare a dashboard as a companion product to this report. It brings together current and historical financial information for the Victorian GGS reported in past state Budgets and AFRs. You can find this dashboard on our website.

Further information

See Appendix B for more information about our audit approach, independence and our costs.

2.

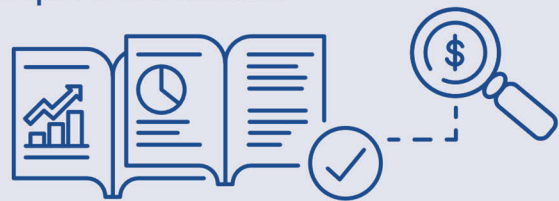
Audit outcomes

Snapshot

The state's financial report is reliable



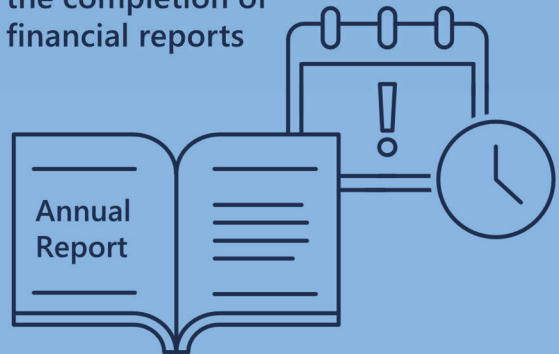
Most material entities' financial reports are reliable



Contentious issues slow financial report completion compared with the prior year



Providing annual reports to Parliament still lags behind the completion of financial reports



Conclusion

We provided a clear audit opinion for the 2024–25 AFR.

Our clear opinion provides reasonable assurance that the financial performance and the State of Victoria's position reported in the 2024–25 AFR is reliable.

The separate financial reports of 28 of the 30 material entities are also reliable. These entities together represent the majority of the state's transactions, balances and disclosures.

We issued a modified audit opinion on VicTrack's financial report because of how it accounts for assets it leases, which was corrected by DTF during consolidation into the AFR. Contentious issues at the Department of Justice and Community Safety (DJCS), Department of Jobs, Skills, Industry and Regions (DJSIR) and Greater Western Water delayed the completion of material entities' reports and audits compared with last year. At the time of this report, Greater Western Water's financial report and audit remain outstanding.

Most of the state-controlled entities' annual reports were provided to Parliament in the last sitting week of October. This continues to place an information burden on Parliamentarians and the Victorian community. Recent amendments to the *Financial Management Act 1994* have changed annual report tabling requirements, which may help address this issue in future years.

The state's financial report is reliable

Audit opinion on the AFR

We provided a clear audit opinion on the 2024–25 AFR. Our clear opinion provides reasonable assurance that the financial performance and position of the State of Victoria, and within it the GGS, as reported in the AFR is free from material error.

Key audit matters

Auditors may include a description of key audit matters in the auditor's report, as described under the Australian Auditing Standards. We include such matters in our AFR report and in the audit reports of material entities where we judge it necessary.

Key audit matters are those we identify as most significant to an audit and their inclusion in the audit report provides transparency and insight into the audit process. They do not affect our opinion.

We reported the following key audit matters for the AFR:

- recognition of transport assets
- valuation of non-financial physical transport assets
- recognition and measurement of service concession assets, liabilities and commitments
- valuation of defined benefit superannuation liability
- valuation of provision for insurance claims.

A copy of our audit report is in Appendix C.

Most material entities' financial reports are reliable

Material entity audit outcomes

We had issued clear opinions on 26 of the 30 material entities' financial reports at the time we issued our opinion on the AFR.

We signed 2 more clear opinions for DJCS and DJSIR after the AFR. The audit of Greater Western Water was not complete at the time of preparing this report.

We issued a modified opinion on VicTrack.

These delays and the modified opinion on VicTrack did not impact our opinion on the AFR because:

- for VicTrack, DTF made a central adjustment on consolidation of the state's financial report to correct the issue
- for DJCS, DJSIR and Greater Western Water, the individual matters affecting finalisation of our audits were not material to the state's financial report, and we had completed our audit of the balances and transactions that were material to the AFR before we issued our opinion on the AFR.

Appendix D lists the material entities and summarises their financial results and our audit opinions.

Delayed certification of the DJSIR financial report

Our audit of DJSIR was delayed because of an unresolved issue from the previous year. It concerned how the department should account for its arrangement with BioNTech Australia Pty Ltd to design, build and operate a clinical-scale vaccine manufacturing facility.

This was a complex and significant matter because the arrangement involves a large financial commitment, multiple parties and accounting treatment consideration under several Australian Accounting Standards requiring significant judgement.

The department gave us its preliminary accounting position in mid-August 2025, almost one year after VAGO requested an assessment, and its final advice in mid-September 2025. This delay postponed the audit's completion.

Delayed certification of the Greater Western Water financial report

Our audit of Greater Western Water was delayed due to several significant issues:

- The transition to a new billing system in May 2024 created significant challenges, resulting in some customers receiving late bills, others receiving late bills covering multiple quarters and some not receiving bills at all. Data migration issues and system deficiencies had significant audit and accounting implications for the financial report, particularly affecting revenue recognition, contract assets measurement and the estimation of expected credit losses.
- We experienced delays in obtaining information required to complete key audit procedures under Australian Auditing Standards.
- Management's cash flow forecasts indicate that additional financial support will be required in 2025–26 to fund operations, which creates uncertainty about GWW's ability to continue as a going concern. The going concern assumption is fundamental to preparing the financial report. It reflects management's expectation that the entity will continue operating and meet its financial obligations for at least 12 months from the date the financial report is finalised, and that the financial report is prepared on this basis. To mitigate this uncertainty, the Treasurer of Victoria issued a letter of comfort in November 2025, confirming that the Victorian government will provide financial support to GWW through to November 2026. This support was a critical factor in management's assessment of GWW's ability to prepare its financial report on a going concern basis.

These matters significantly delayed the audit and required additional scrutiny to ensure the financial report was accurate, transparent and complied with Australian Accounting Standards.

Delayed certification of the DJCS financial report

We qualified the 2023–24 audit opinion of DJCS's financial report because of a scope limitation. Last year, we could not obtain sufficient, appropriate audit evidence to conclude on the completeness of fines income from the road safety camera program, specifically for distracted driver and seatbelt offences. This is because DJCS did not assure itself sufficiently that the service organisation it used maintained appropriate controls and records, as required by the *Standing Directions 2018 under the Financial Management Act 1994*.

For 2024–25, DJCS addressed the issues we identified last year. It obtained assurance over its service provider through an independent ASAE 3402 *Assurance Reports on Controls at a Service Organisation* assurance report, a copy of which we received on 31 July 2025. The report covered the period from 1 July 2024 to 30 June 2025. While the service auditor noted control deficiencies, compensating controls and alternative procedures were implemented to mitigate significant deficiencies and risks.

We spent considerable time reviewing the assurance report and assessing whether the controls and alternative procedures were sufficient to remove the prior year's scope limitation. This additional work extended the timing of our audit process. Based on our assessment, we concluded that a modification to the audit opinion was no longer required.

Adverse audit opinion on VicTrack financial report continues

Our adverse opinion for VicTrack

We have continued to issue an adverse opinion on VicTrack's financial report. This means that its financial report does not accurately reflect its financial performance and position.

VicTrack has continued to account for assets it leases to the Department of Transport and Planning (DTP) as operating leases. VicTrack asserts that it substantially holds all the risks and rewards incidental to ownership of the operational transport assets.

We disagree. VicTrack's incorrect accounting is material and pervasive to its financial report.

Our view is that DTP is responsible for the operation of the transport network as a whole and that in this regard DTP:

- directs the use of transport assets by setting the timetables and operating conditions for all modes of transport with no significant input from VicTrack
- substantially holds the risks and rewards of ownership of the operational transport assets.

This is why we formed the view that it is a finance lease. VicTrack continues to incorrectly recognise these leased assets and associated transactions that should be accounted for by DTP.

In the AFR, DTF made a central adjustment on consolidation to correct this inconsistent accounting treatment. This means the fair value of the underlying assets and associated transactions were correctly reinstated at the State-of-Victoria level.

Adverse opinion

We make an adverse opinion when an entity's financial report is misrepresented, misstated or does not accurately reflect the entity's financial health.

VicTrack lease arrangement

DTP delivers public transport services in Victoria through contracted service providers. VicTrack, a public non-financial corporation, owns most of Victoria's transport infrastructure assets.

DTP constructs these assets using funds sourced from DTF through GGS borrowings. Once completed, ownership transfers to VicTrack, which acts as the custodian of the state's transport assets.

VicTrack records these assets and their depreciation expenses in its financial report, with annual depreciation estimated between \$600 million and \$1 billion per year. However, due to ongoing asset record keeping noted in previous reports, VicTrack cannot confirm the exact value of assets leased to DTP or their associated depreciation.

DTP leases these assets back from VicTrack for a nominal amount, typically between \$1 and \$10 per year, and then subleases them to third-party service providers that operate transport services.

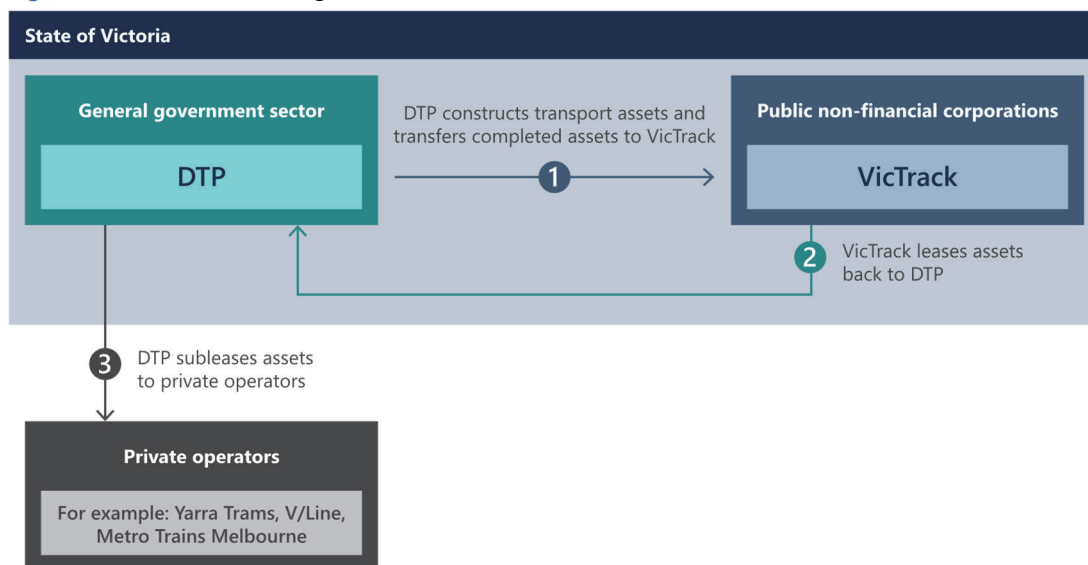
Under the Australian Accounting Standards, entities must recognise lease arrangements on their balance sheets, recording a right-to-use asset and a corresponding liability that reflects lease payments over the lease term. For not-for-profit public sector entities, the standards currently allow below-market lease assets (concessionary leases), such as the VicTrack–DTP arrangement, to be measured at cost rather than the fair value, through a relief mechanism. Ordinarily, the leased assets would be measured at fair value.

As a result, DTP, a GGS entity, records these leased assets at their nominal values. Consequently, and in accordance with accounting standards, depreciation, or equivalent charges, are insignificant because they are based on the leased assets' nominal cost, not fair value. DTP's financial report therefore does not reflect the true economic cost of using these assets for public transport services in the GGS. However, DTP does record its share of farebox revenue (that is, income from passenger fares) from subleasing these assets, which totalled \$361 million in 2025.

The financial outcomes and targets for the GGS therefore do not reflect any effects of significant transport infrastructure assets used by the GGS.

Figure 2 shows the lease arrangement between DTP and VicTrack.

Figure 2: VicTrack lease arrangement with DTP



Source: VAGO.

Contentious issues slow financial report completion compared with the prior year

Legislated timelines

DTF and the state-controlled entities must complete financial reporting tasks by the dates set in the *Financial Management Act 1994*. Entities are required to provide financial reports to us within 8 weeks of the balance date (30 June), which is 25 August.

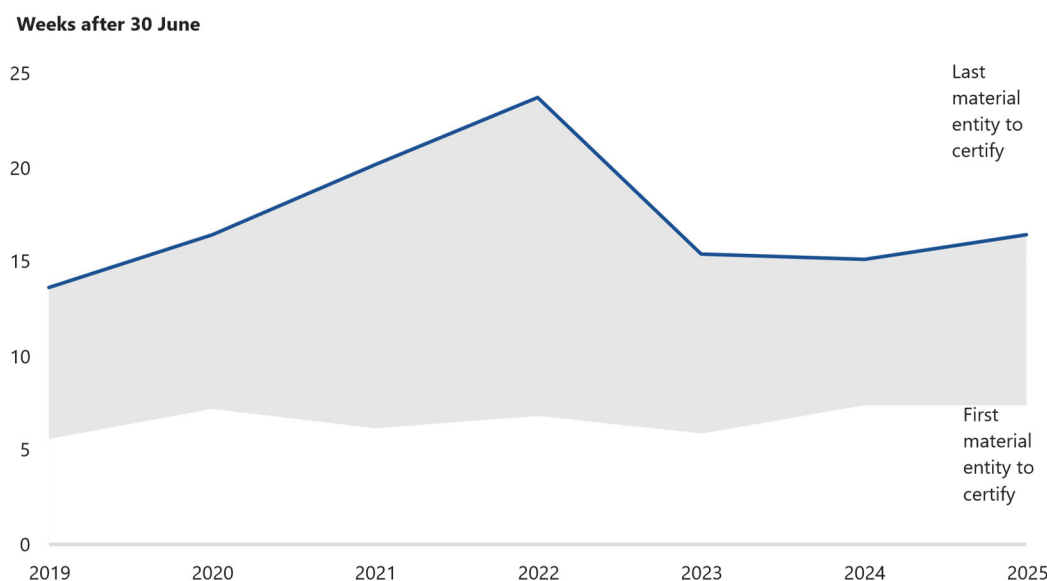
The *Audit Act 1994* requires us to provide the entity with an audit opinion within 4 weeks of receiving its financial report. That means we should provide audit opinions by 22 September.

To meet their legislative timelines, DTF and VAGO rely on entities providing complete and accurate financial information on time. Delays impact the timeliness of our audit opinions as well as the preparation and tabling of the material entities' financial reports and the AFR in Parliament.

Timely financial reports for most material entities

Figure 3 shows that material entity financial reporting slowed this year due to financial report certification delays explained earlier.

Figure 3: Timeliness of financial report certifications from 2019 to 2025



Note: Figure 3 excludes Greater Western Water for 2025 because its financial report is not certified at the time of publishing this report.
Source: VAGO.

This year, 3 material entities certified their financial reports and a further 25 provided draft financial reports by the due date of 25 August. We were then able to provide:

- 17 of the 30 material entities with an audit opinion by 22 September
- a further 10 material entities with an audit opinion before we gave the Treasurer our audit opinion on the AFR.

Three material entity financial reports remained unsigned and without audit opinions at the time the AFR was finalised.

Annual report tabling

Annual reports are important accountability documents

Annual reports of public sector entities promote transparency and accountability. These reports provide an overview of an entity's activities, financial performance and use of public resources and includes the audited financial report. They also ensure accountability by detailing how funds were spent and if outcomes were achieved.

As required by the *Financial Management Act 1994*, state-controlled entities must, by 31 October, either table or transmit their annual reports, or ensure that the relevant Minister notifies Parliament of receipt. The applicable requirement depends on the entity's expenditure level, as determined by the threshold set out in the Act.

If they do not meet this date, responsible ministers must:

- report this to Parliament, along with the reasons for the delay
- ensure the annual reports are tabled as soon as possible after they are received.

We have an obligation under the Australian Auditing Standards to consider whether information in annual reports is consistent with the audited financial report. If we identify an inconsistency, it may indicate a material misstatement in either the financial report or financial information of the annual report. This consistency check is done before we release our audit opinion if the annual report is available by the entity.

Delayed tabling
of annual
reports

This year, the available parliamentary sitting dates for annual reporting tabling were as follows:

- 14, 15 and 16 October 2025
- 28, 29 and 30 October 2025.

We issued our audit reports on 249 of the 270 state-controlled entity financial reports, on average, 40 days before 31 October 2025. Figure 4 provides a breakdown of our audit opinion timing.

Figure 4: Timing of audit reports

Date	Number of audit reports issued
By 31 October 2025	249 (92 per cent)
Before 15 October 2025	221 (82 per cent)
Before 30 September 2025	164 (61 per cent)
Before 15 September 2025	92 (34 per cent)
Before 31 August 2025	20 (7 per cent)

Source: VAGO.

By 29 October 2025, 9 state-controlled entities had tabled their annual reports in Parliament. By 30 October 2025, 214 state-controlled entities had their annual reports either tabled in Parliament or acknowledged as received by the relevant minister in accordance with the *Financial Management Act 1994*.

The tabling of annual reports still lags behind the completion of financial reports and issuing of audit opinions.

Amendments to
the *Financial
Management
Act 1994*

On 19 August 2025, the Victorian Parliament passed amendments to the *Financial Management Act 1994*, which received royal assent. These changes aim to improve the timeliness of annual report tabling in Parliament.

The amendments clarify the timing requirements, outline the responsibilities of ministers in relation to their portfolio agencies' annual report tabling, specify what ministers must report to Parliament regarding annual reports, and formally define the role of parliamentary clerks in the tabling process.

3.

Financial outcomes for the GGS and risks to fiscal sustainability

Snapshot

Early steps taken to manage financial challenges, but focus on strengthening long-term financial resilience still needed



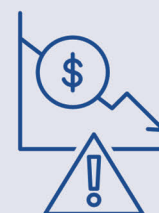
Another operating loss of \$2.6 billion reported for the GGS, bringing total losses over the last 6 years to \$50.6 billion



GGS achieved a \$3.2 billion operating cash surplus, from more tax income, federal funding, and a TAC dividend



GGS maintained its fiscal cash deficit, a trend expected to persist, further weakening the state's financial resilience



Gross debt in the GGS grew by \$19.0 billion to \$187.9 billion, faster than revenue and economic growth



Emerging risks may affect the state's ability to meet its short-term financial targets and sustain long-term fiscal stability



Conclusion

The GGS reported another operating loss of \$2.6 billion, \$0.4 billion above budget, adding to accumulated losses of \$50.6 billion over the last 6 years.

It achieved an operating cash surplus of \$3.2 billion, aided by stronger taxation income, increased federal funding, and a dividend from the Transport Accident Commission (TAC). However, it continues to incur fiscal deficits and has done so since 2016–17, which is a trend expected to continue.

Debt continues to grow faster than both the economy and revenue, with GGS gross debt nearing 30 per cent of the state's economy. One of the government's key financial metrics relates to the size of net debt relative to the size of the state's economy. In this regard, it is forecasting a reduction in this ratio from 2027–28.

Despite the implementation of savings and efficiency measures in recent years, the cost of providing public services continues to rise. Based on current forecasts, planned cost savings of \$6.3 billion will need to be realised over the next 4 years to achieve GGS projected outcomes.

The steps taken to date to respond to financial challenges have focused on addressing immediate fiscal pressures rather than strengthening long-term financial resilience. To that end, our recommendations from last year's report remain relevant, given the continued financial trends and the emerging risks to financial sustainability.

3.1 The state's fiscal strategy, financial objectives and measures

Fiscal sustainability

What is fiscal sustainability?

To remain fiscally sustainable, the state must meet current and future expenditure requirements from revenue earned, absorb foreseeable changes and materialising risks and manage the impact from these factors to changing revenue and expenditure requirements.

Fiscal sustainability

Fiscal sustainability is the ability of the government to maintain public finances at a credible and serviceable position now and into the future. Ensuring long-term fiscal sustainability requires governments to engage in ongoing monitoring and strategic forecasting of future revenue and expenditure, environmental factors and socioeconomic trends to remain financially resilient.

Fiscal strategy

Fiscal strategy outlines the government's fiscal objectives

The state Budget sets out the Victorian Government's long-term financial management objectives for the GGS along with short-term objectives and key financial measures and targets for achieving the government's fiscal strategy.

The state's long-term financial management objectives, as outlined in the 2025–26 state Budget, are:

- sound financial management
- improved services
- building infrastructure
- efficient use of public resources
- a resilient economy.

In the 2020–21 state Budget, the government set out a 4-step fiscal strategy aligned to its key financial measures and sustainability objectives. In the 2024–25 Budget, the government added a fifth step. The 5-step fiscal strategy comprises:

- step 1: creating jobs, reducing unemployment and restoring economic growth
- step 2: returning to an operating cash surplus
- step 3: returning to operating surpluses
- step 4: stabilising net debt levels as a proportion of gross state product (GSP)
- step 5: reducing net debt as a proportion of GSP.

The government acknowledges that reducing spending, especially on inefficient and non-priority programs, as well as increasing operational efficiencies and process improvements across departments and programs are important for meeting its current fiscal strategy.

Fiscal strategy

A fiscal strategy is a clear statement of the government's fiscal objectives and targets over a defined period. It sets out the government's short term and long-term fiscal strategies and objectives for managing its finances and existing and emerging risks. It also demonstrates how planned government policies will contribute to fiscal sustainability and macro-economic stability.

Short-term financial sustainability objectives

Short-term objectives have been slightly amended for the 2025–26 financial year

The government sets short-term financial sustainability objectives in response to its fiscal position, which is affected by continued structural deficits, rising debt to fund its large infrastructure program and the COVID-19 pandemic.

Figure 5 shows how these objectives have been modified over the last 5 Budgets.

Figure 5: GGS short-term financial sustainability objectives

Budget year	Operating cash surplus	Net operating balance	Net debt to GSP
2025–26	An operating cash surplus was achieved in 2022–23 and will be maintained over the Budget and forward estimates period.	Net operating balance will return to a surplus by 2025–26.	Net debt to GSP will stabilise and begin to decline by the end of the forward estimates period.
2024–25	Operating cash surplus was achieved in 2022–23 and will be maintained over the Budget and forward estimates period.	Net operating balance will return to a surplus by 2025–26.	Net debt to GSP will stabilise and begin to decline by the end of the forward estimates period.
2023–24	Operating cash surplus was achieved in 2022–23 and will be maintained over the Budget and forward estimates period.	Net operating balance will return to a surplus by 2025–26.	–
2022–23	Operating cash surplus will be achieved by 2022–23.	Net operating balance will return to a surplus by the end of the forward estimates period.	–
2021–22	Operating cash surplus will be achieved before the end of the forward estimates period.	–	–

Source: VAGO, based on the AFR and state Budgets.

Financial measures and targets

Financial measures and targets continue to lack specificity

To support its financial objectives, the state has set key financial measures and targets. Figure 6 outlines the government's key financial measures and targets for the GGS set out in respective state Budgets along with the actual outcomes reported for the last 2 years.

The measures and targets are qualitative, except for one: 'fully funding the unfunded superannuation liability by 2035'.

Figure 6: GGS key financial measures, targets and results

Financial measure	Target	2023–24 actual	2024–25 Budget	2024–25 actual
Operating cash surplus ^(a)	A net operating cash surplus consistent with maintaining GGS net debt at a sustainable level	\$2.6 billion surplus	\$1.8 billion surplus	\$3.2 billion surplus
Net debt to GSP ^(b)	GGS net debt as a percentage of GSP to stabilise in the medium term	21.9%	24.4%	23.7%
Interest expense to revenue	GGS interest expense as a percentage of revenue to stabilise in the medium term	6.1%	6.8%	6.7%
Superannuation liabilities (contribution to the State Superannuation Fund)	Fully fund the unfunded superannuation liability by 2035	\$0.1 billion	\$0.6 billion	\$0.4 billion

Note: ^(a)These are the net cashflows from operating activities as disclosed in the consolidated cashflow statement.

^(b)Net debt is gross debt less liquid financial assets. It is the sum of deposits held, advances received, government securities, loans and other borrowings less the sum of cash and deposits, advances paid, investments, loans and placements.

Source: VAGO, based on data from the state Budget, the AFR and a publicly announced policy costing.

The operating cash surplus exceeded the 2024–25 state Budget estimate by \$1.4 billion due to higher taxation income, increased Australian Government grants and a dividend payment of \$0.7 billion from the TAC.

Net debt to GSP is 0.7 per cent lower than the estimate in the 2024–25 state Budget. This improvement has primarily resulted from:

- the \$1.4 billion net operating cash surplus above budget
- investment returns and growth exceeding the forecast for the Victorian Future Fund (VFF), Victorian Social Housing Growth Fund, and Victorian Homebuyer Scheme. As of 30 June 2025, the combined balances reached \$14.8 billion, exceeding the \$13.6 billion projected in the 2024–25 state Budget.

Interest expense to revenue decreased by 0.1 per cent compared with the 2024–25 state Budget estimate. This was due to revenue growing faster than interest relative to the Budget. Revenue was \$5.3 billion, or 5.5 per cent above budget, while interest was \$0.3 billion, or 4.2 per cent higher than budget.

The government contributed \$221 million less than budgeted to the State Superannuation Fund in 2024–25.

Over the last 12 years, financial measures and targets have been gradually revised from specific and quantifiable to less-specific targets, as outlined in Appendix E. Except for the measure to fully fund the superannuation liability by 2035, other measures do not include explicit targets or clearly defined timelines.

Early steps taken to manage financial sustainability

Savings initiatives and the Independent Review of the Victorian Public Service

The government has continued its progress with savings initiatives and efficiency dividends, designed to improve the state's financial position. It has also commissioned the Independent Review of the Victorian Public Service, from which we expect further savings measures. This review plans to:

- identify overlaps, inefficiencies, functions and programs within the Victorian Public Service (VPS) that can be streamlined or eliminated
- provide recommendations to improve processes and make sure all VPS departments and programs work efficiently
- provide recommendations to reduce the VPS workforce back towards its pre-pandemic share of employment, including an examination of the appropriate levels of executives.

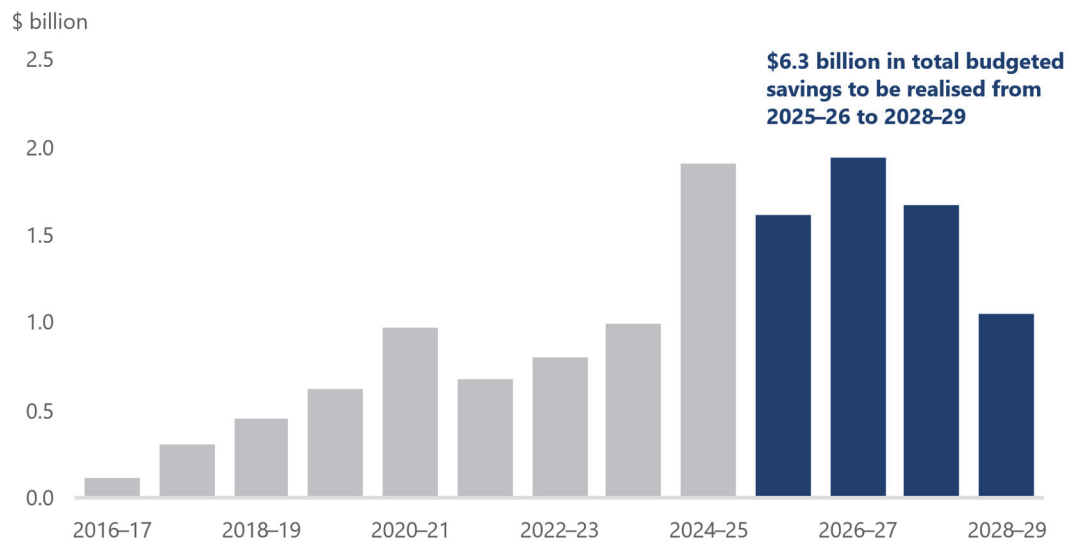
The review has not considered the state's capital investment program or debt management strategy. The report from this review has been finalised but has not been made public yet.

Achieving savings through these mechanisms is an important step towards managing the state's long-term fiscal sustainability.

The 2025–26 state Budget includes \$3.3 billion in savings targets for the period from 2025–26 to 2028–29. This is in addition to the \$9.9 billion in savings targets outlined in state Budgets from 2015–16 to 2024–25.

Figure 7 shows the cumulative savings of \$13.1 billion announced in state Budgets from 2016–17 to 2028–29, with \$6.3 billion expected to be realised from 2025–26 to 2028–29.

Figure 7: Cumulative saving initiatives announced in the state Budget



Source: VAGO, based on state Budgets.

Despite these efforts, the government has been unable to constrain rising expenditure. The emerging risks outlined in this section further affect the government's capacity to deliver on its announced savings initiatives for 2025–26 and beyond, as well as any additional measures that may be introduced.

Amendments to the Financial Management Act 1994

In the 2024–25 state Budget, the government announced a plan to introduce financial management reforms, including a review of the *Financial Management Act 1994*. On 19 August 2025, Parliament passed the amendments to the *Financial Management Act 1994*, and the legislation subsequently received royal assent.

The government stated that these amendments strengthen the Act to ensure it meet the needs of a growing and increasingly complex public sector. In the context of ongoing economic uncertainty, the reforms aim to improve transparency, accountability and performance in managing and reporting the use of public resources.

As it relates to financial management, the legislation introduces amendments that the government believes will strengthen financial management practices. These include:

- requiring every department and public sector entity to operate within its approved budget
- mandating written notification to DTF if a department or public sector entity expects to exceed its budget
- elevating responsibilities from the *Standing Directions 2018 under the Financial Management Act 1994* into legislation for key roles in departments and public sector entities, including the accountable officer, responsible body, and chief finance officer
- assigning explicit duties to these roles to manage financial responsibilities, provide accurate financial information and report material risks.

These reforms represent a positive step towards strengthening financial management across departments and public sector entities.

We note the amendments do not introduce changes to strengthen the state's focus on long-term financial sustainability planning.

**Long-term focus
still required**

Initial steps have been taken to address financial challenges faced through the initiatives described above. However, these steps remain short term, focused on addressing immediate fiscal pressures rather than building on longer-term financial resilience.

To that end, our recommendations from our report last year remain relevant, given the continued financial trends and the emerging risks to financial sustainability outlined in this report.

3.2 Financial outcomes for the GGS

We analyse the financial performance of the GGS because it is central to how the government sets fiscal policy, manages revenue and expenditure and monitors overall financial outcomes. The government uses the GGS as the primary focus for fiscal targets and budget management.

The GGS drives most of the changes in the state's consolidated financial outcomes. Nonetheless, some significant financial outcomes arise from entities outside the GGS, which we discuss later in this section.

The GGS reported another operating loss of \$2.6 billion, higher than forecast by \$0.4 billion. Accumulated losses now reach \$50.6 billion for the last 6 years

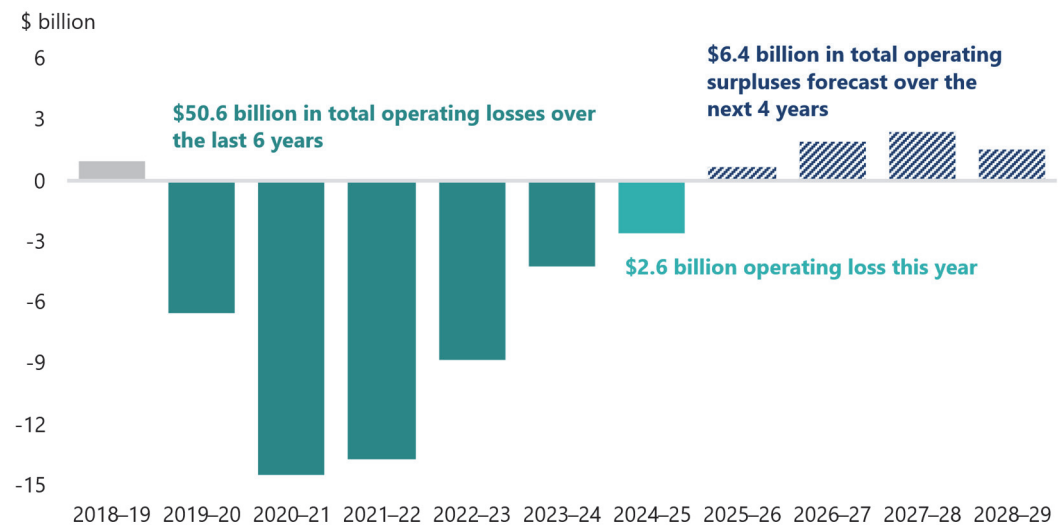
**What is the
operating result
and why is it
important?**

The operating result shows the difference between what the GGS earns (revenue and income) and what it spends (expenses) during a financial year. It is also known as the net operating balance.

This result is a key measure of the GGS's financial performance and fiscal sustainability. A positive operating result shows the state can generate revenue and manage expenses effectively, producing a surplus that can support future needs.

The GGS reported a net operating loss this year of \$2.6 billion, as shown in Figure 8. This is an improvement on the \$4.2 billion loss reported last year, however, more than the operating loss forecast in the 2024–25 state Budget by \$0.4 billion.

Figure 8: GGS net operating result



Source: VAGO, based on the AFR and state Budget.

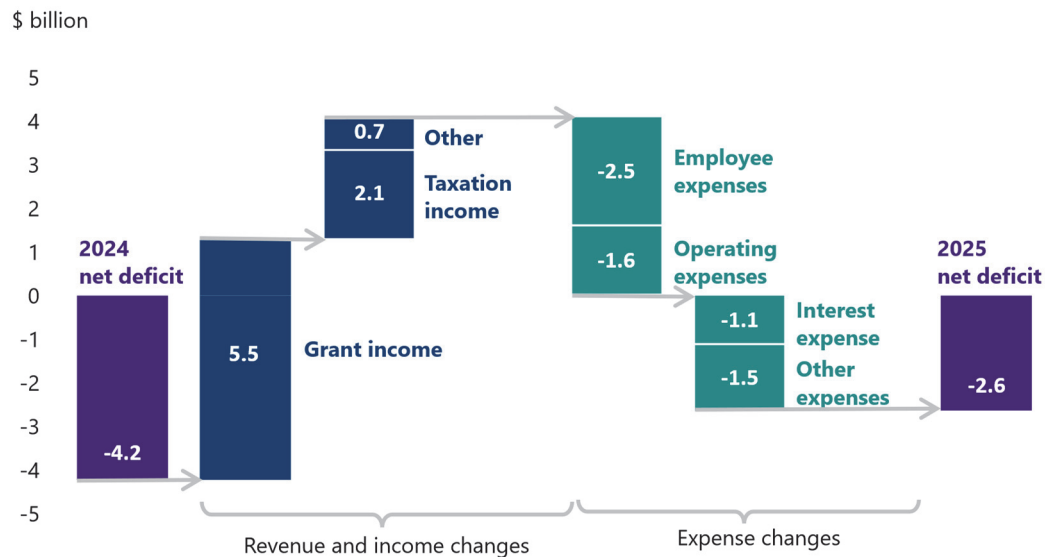
This year's result brings the GGS's total accumulated losses over the last 6 years to \$50.6 billion. The government attributes \$31.5 billion of these losses to its COVID-19 response from 2019–20 to 2022–23 and the remainder to providing ongoing public services. These operating losses continue to deplete cash reserves, require increased use of debt and weaken the state's financial resilience and capacity to respond to future shocks.

The GGS is forecast to return to a moderate net operating surplus of \$611 million in the 2025–26 financial year. Over the 4 years to 2028–29, the government expects the GGS to deliver a cumulative net operating surplus of \$6.4 billion – a small portion of the \$50.6 billion in losses over the last 6 years. If it is to restore the financial capital eroded by these losses, the government will need to make significantly larger surpluses than the current forecast beyond 2028–29.

How the operating deficit was achieved this year

Figure 9 shows the key contributors to this year's improvement in the operating result compared with last year.

Figure 9: Changes in the GGS net operating result from 2024 to 2025



Note: Numbers have been rounded.

Source: VAGO, based on the AFR and state Budget.

This improved result was driven by revenue and income growing more than expenses.

Operating revenue and income rose by \$8.3 billion, increasing from \$93.1 billion in 2024 to \$101.4 billion in 2025 (8.9 per cent). This increase was driven by higher:

- tax income of \$2.1 billion, with payroll tax rising by \$547 million and land transfer duty by \$828 million because of stronger economic conditions in labour and property markets
- grants received from the Australian Government of \$5.5 billion. This included:
 - \$3.9 billion from a larger national GST pool and an increase in Victoria's share of the pool
 - additional funding for various programs in education, health and housing.

Expenses went up by \$6.7 billion, from \$97.3 billion in 2024 to \$104.0 billion in 2025 (6.9 per cent), mainly driven by increases to:

- employee expenses by \$2.5 billion due to more staff and higher wages
- interest expense of \$1.1 billion due to the government taking on new borrowings or refinancing existing borrowings at higher interest rates
- other operating expenses of \$1.6 billion because of:
 - \$706 million for Energy Bill Relief Concession payments funded by the Australian Government
 - \$303 million for frontline services in health and education.

Rising inflation, population growth and increased government activity can also drive year-on-year changes in revenue and expenses.

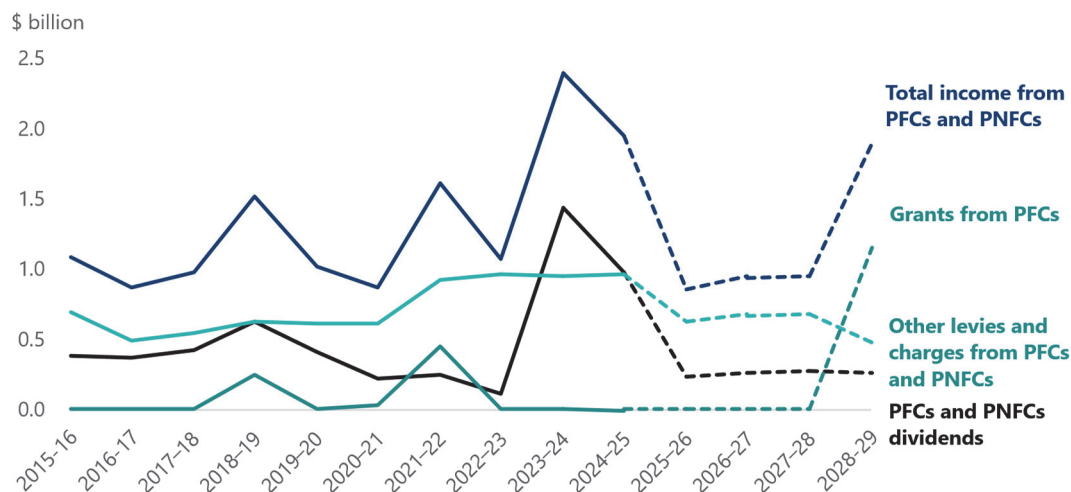
Funding from the Australian Government, increases in taxation income and income sourced from public corporations have continued to make a substantial contribution to the GGS's operating result.

Income from public corporations supports improved GGS outcomes

Public corporations contribute significantly to the GGS through dividends, statutory fees and charges, the financial accommodation levy, the environmental contribution levy, grants and income-tax-equivalent receipts.

This year, public corporations contributed \$1.9 billion to GGS income and revenue (2024: \$2.4 billion). Figure 10 presents income and revenue from public corporations over the last 10 years, along with forecasts for 2025–26 to 2028–29 from the state Budget.

Figure 10: Income and revenue sourced from public corporations



Note: PFC stands for public financial corporation. PNFC stands for public non-financial corporation.
Source: VAGO, based on the AFR and state Budget.

Income and revenue from public corporations have varied over time. Between 2015–16 and 2022–23, they averaged approximately \$1.1 billion per year. However, in the last 2 years, this average rose to around \$2.2 billion mainly due to higher dividend income payments from the TAC. This increase has helped reduce the GGS's operating deficit and supported a return to positive operating cashflows.

The GGS recorded a \$3.2 billion operating cash surplus, boosted by stronger tax income, Australian Government funding and a dividend from the TAC

What is the operating cash result and why is it important?

The operating cash surplus is the extra money left over for the government in a financial year after paying for its operations and running expenses, such as employee salaries, supplier expenses, interest costs and utilities.

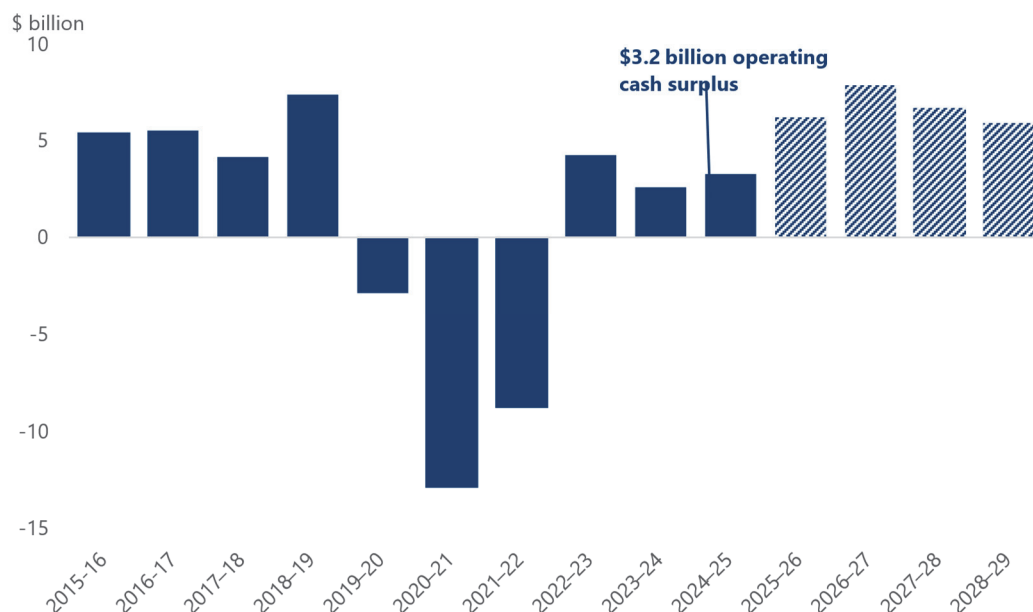
The GGS achieved an operating cash surplus of \$3.2 billion this year, which is \$1.4 billion higher than the \$1.8 billion forecast in the 2024–25 Budget and \$0.6 billion higher than last year's result of \$2.6 billion.

Achieving the operating cash surplus this year was possible because of:

- higher taxation receipts of \$2.9 billion
- an increase in Australian Government grants of \$6.0 billion
- a dividend payment of \$0.7 billion from the TAC. The TAC is a public financial corporation that funds Victoria's no-fault transport accident insurance scheme by collecting levies from vehicle registration. It supports Victorians injured in transport accidents by covering medical treatment, rehabilitation and related services.

Figure 11 shows the operating cash result for the GGS since 2015–16 in addition to the projected outcome from the Budget and forecast years from 2025–26 to 2028–29.

Figure 11: Operating cash surplus/deficit



Source: VAGO, based on the AFR and state Budget.

The government expects to generate \$26.5 billion in operating cash surpluses over the next 4 years. However, it plans to invest \$62.8 billion in capital projects during the same period. The shortfall between projected surpluses and planned capital investments increases the need to borrow additional funds to support its program.

The GGS's fiscal cash deficit continues with this trend expected to persist

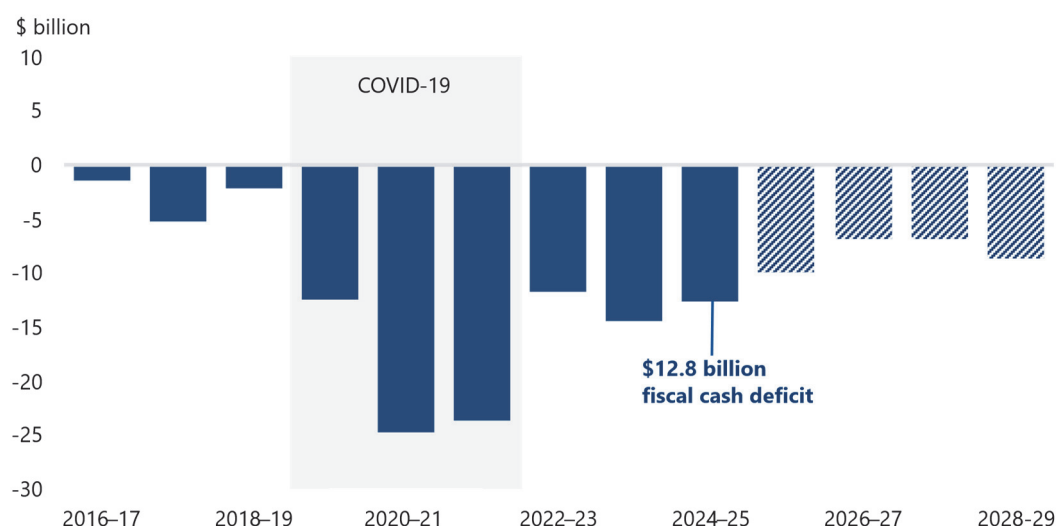
The GGS reported a fiscal cash deficit for a further year

A fiscal cash surplus means the state's cash inflows from operations exceed its recurrent and capital outlays.

A fiscal cash surplus is a sign of good financial health because it means there is available cash for the state to use to invest in public services, pay down debt or build financial resilience for future uncertainties. A fiscal cash deficit means the state must borrow to cover its net investments in non-financial assets used to provide public services.

Figure 12 shows the fiscal cash deficits of the GGS since 2016-17, in addition to the projected outcome for the Budget and forecast years from 2025-26 to 2028-29.

Figure 12: Fiscal cash deficit



Source: VAGO, based on the AFR and state Budget.

In 2024–25, the GGS made a fiscal cash deficit of \$12.8 billion.

It has not made a fiscal cash surplus in the last 9 years, with this trend expected to continue over the next 4 years. This prolonged period of fiscal deficits highlights why the government has relied so heavily on borrowings to fund its capital investments, as there has been no alternative funding source available.

Persistent fiscal cash deficits pose risks to the state's long-term financial sustainability. As debt reliance increases, interest expenses rise. In the short term, this reduces available funds for essential government services because more funding is diverted to cover interest payments. Over time, this weakens the state's financial resilience and its ability to respond to future needs. Unsustainable debt levels may also trigger adverse economic conditions. We explain this in more detail in the emerging risk section later in this section.

Fiscal cash surplus/deficit

The cash surplus/deficit is calculated by:

- net cashflows received from operating activities, which are the sum of cash received from sources, such as taxes and government grants, offset by cash spent on operating expenses, such as employee costs
- plus net cashflows from investment in non-financial assets, being the sum of cash earned from investment activities, such as the sale of land and buildings, offset by cash spent on capital projects.

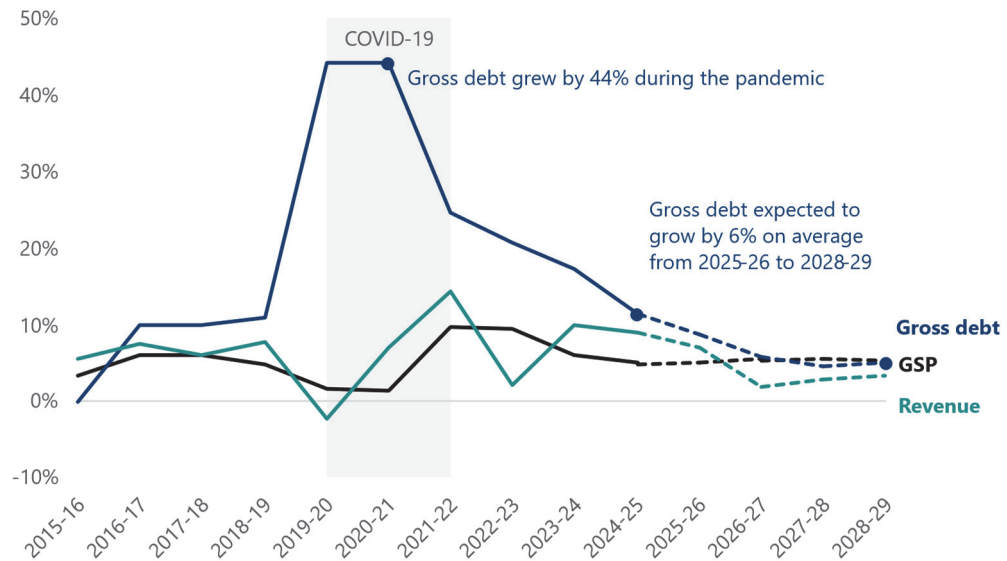
GGS debt grew by \$19.0 billion to \$187.9 billion, continuing to outpace revenue and economic growth

GGS debt grew with the trend set to continue

State nominal debt is historically high and forecast to grow as the government progresses with its significant planned infrastructure program. GGS debt includes interest-bearing liabilities mainly raised from domestic borrowings through Treasury Corporation of Victoria (TCV). It also includes other less significant interest-bearing liabilities including lease liabilities and service concession arrangement liabilities.

Over the last decade, the growth of debt has consistently outpaced both GGS revenue and state economic growth. As shown in Figure 13, debt increased at an average annual rate of 19.2 per cent between 2015–16 and 2024–25. In comparison, revenue and GSP grew at average annual rates of 6.6 per cent and 5.3 per cent respectively, during the same period.

Figure 13: Revenue, GSP and gross debt growth



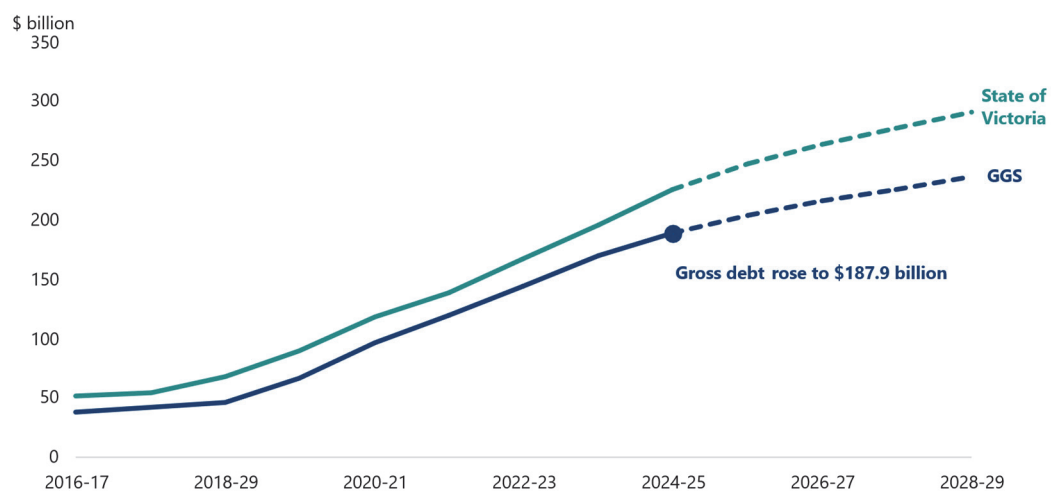
Source: VAGO, based on the AFR and state Budget.

Over the next 4 years, debt is forecast to increase at an average annual rate of 6 per cent, while revenue and GSP are expected to grow at rates of 3.6 per cent and 5.3 per cent, respectively.

Victoria is currently delivering \$212.7 billion in new and existing capital projects. Through the 2025–26 state Budget, the government committed \$127.8 billion to capital investment from the 2025–26 financial year onward. The majority of this investment is expected to be financed through debt.

Figure 14 shows the growth of Victoria's gross debt since 2016–17 and forecast growth over the forward estimates to 2028–29.

Figure 14: Victoria's gross debt



Source: VAGO, based on the AFR and state Budget.

The GGS's gross debt rose from \$37.9 billion at 30 June 2017 to \$187.9 billion at 30 June 2025. In particular, rapid growth of 183 per cent has occurred since 2019–20, when debt was \$66.5 billion.

GGS gross debt is projected to grow at an average annual rate of 6.0 per cent over the next 4 years, reaching \$236.6 billion by 30 June 2029. The state's gross debt follows a similar growth pattern. It was \$225.5 billion as at 30 June 2025 and is projected to grow at an average annual rate

of 6.6 per cent reaching \$290.9 billion by 30 June 2029 because the state is taking on more debt to mainly pay for investments in capital projects.

The increase in debt was partly used to cover the state's operating deficit in response to the COVID-19 pandemic, and partly to finance investment in infrastructure, other assets and operational needs.

Figure 15 shows the breakdown of GGS existing debt by its purpose and use.

Figure 15: GGS gross debt profile by its purpose and use



Note: Infrastructure programs are also funded through available cash and Australian Government funding.
Source: VAGO, based on the AFR and state Budget.

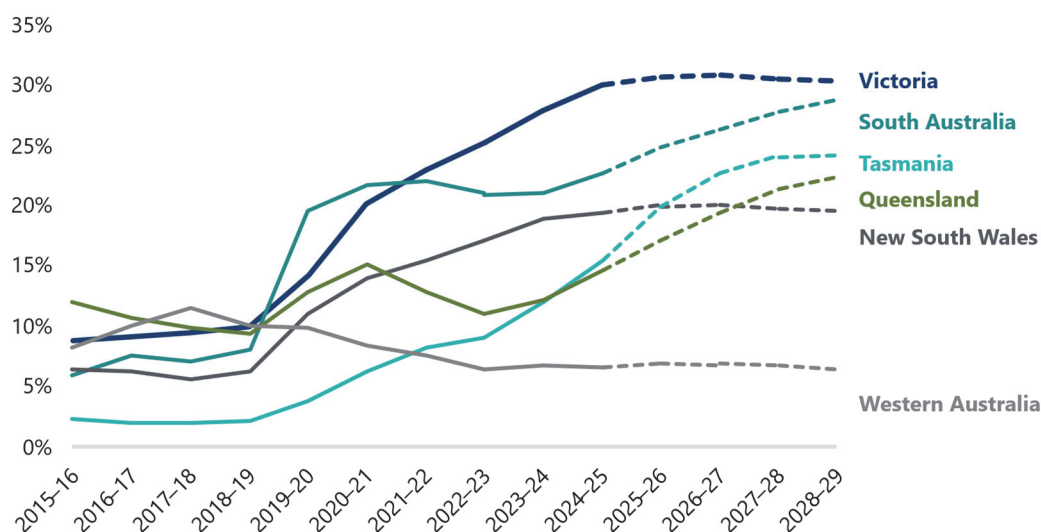
The government took on \$31.5 billion in debt in responding to the pandemic, more than 16.7 per cent of the GGS current outstanding debt.

Using debt to fund investment in intergenerational infrastructure is common. It enables the government to allocate resources and invest in long-term projects that taxpayers might not otherwise afford today. However, a higher and unsustainable level of public debt can pose a significant risk to future prosperity and economic stability. If not managed in a fiscally sustainable and responsible manner, debt imposes a significant cost to taxpayers now and into the future.

Victoria's debt has been growing faster than other states

Figure 16 shows GGS total gross debt of all Australian states as a percentage of nominal GSP for each state. This is a common measure used across jurisdictions to understand their relative indebtedness.

Figure 16: Gross debt as a percentage of nominal GSP of Australian GGSs by state



Source: VAGO, based on each state's Budgets.

Victoria's gross debt to GSP ratio was comparable to other states prior to the pandemic standing at 8.8 per cent in 2015–16. Since then, it has diverged, growing to 30.0 per cent as of 30 June 2025. Despite achieving the targets set out in the current fiscal strategy, gross debt will continue growing, increasing from \$187.9 billion on 30 June 2025 to an estimated \$236.6 billion by 30 June 2029.

COVID Debt Repayment Plan

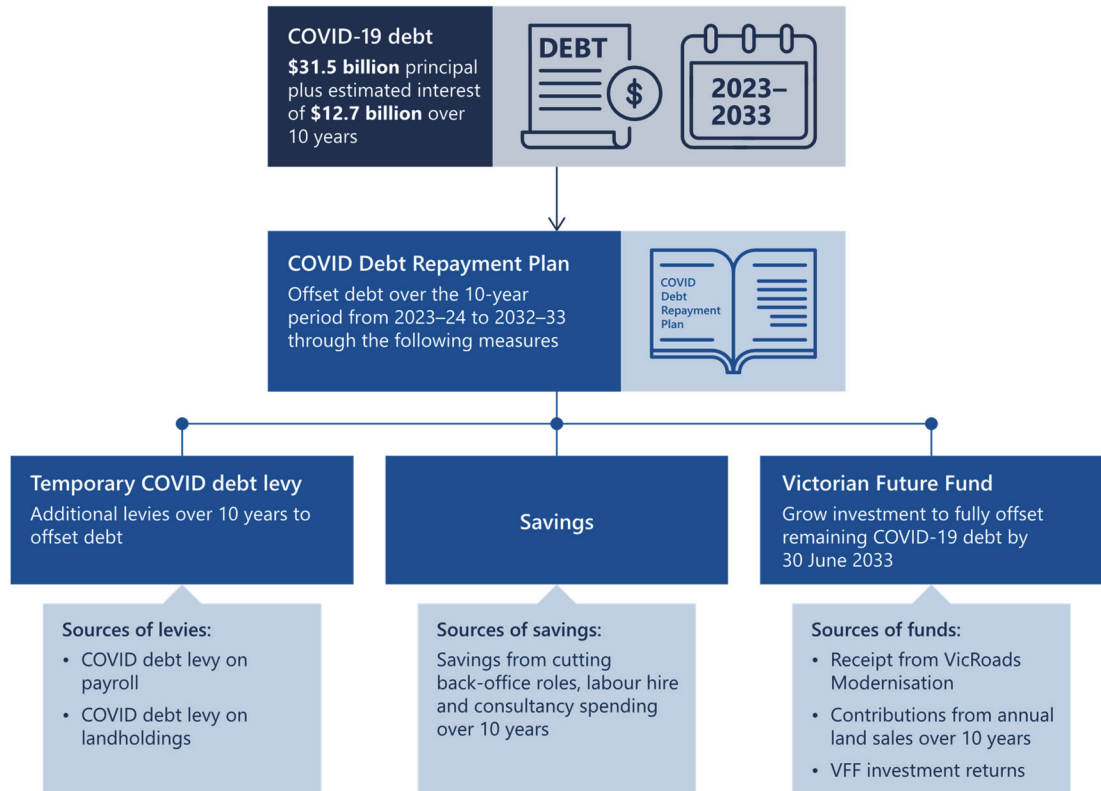
In May 2023, the government introduced a temporary plan through the 2023–24 state Budget to offset the cost of servicing \$31.5 billion in COVID-19-pandemic-related debt. This 10-year plan, running to 2033, includes 3 key funding components:

- temporary COVID debt levy applied to land and payroll taxes
- public service rebalancing through further savings and efficiency initiatives across the government. These include reductions in corporate and back-office functions, labour hire and consultancy expenses
- establishment of the VFF, which includes the \$7.9 billion in proceeds received in 2022–23 from outsourcing licensing, registration and custom plate services through the VicRoads modernisation joint venture arrangement.

How does the plan work?

Figure 17 outlines the components of the COVID Debt Repayment Plan and the estimated financial impact.

Figure 17: Components and estimated financial impacts of the COVID Debt Repayment Plan



Source: VAGO, based on DTF and the 2023-24 state Budget.

The government incurred the COVID-19-related debt during a period of historically low interest rates. Instead of repaying the debt, the government's COVID Debt Repayment Plan was structured to use the cash inflows from new levies, savings and efficiency initiatives to reduce future borrowing for its planned capital works program. Further, the VFF was established and now operates as an offset account, using the funds invested and their associated returns to reduce COVID-19-related debt servicing costs.

As shown in Figure 17, the government expects the COVID Debt Repayment Plan to fully offset both the COVID-19-related debt of \$31.5 billion and the estimated interest expense of \$12.7 billion over the 10-year period. The estimated funding sources include:

- additional payroll and landholding levies
- savings from cutting back-office roles, labour hire and consultancy spending
- VFF investment returns and contributions from government land sale proceeds to the VFF.

Since the beginning of the plan in 2023-24, the government has collected \$2.0 billion from the COVID debt levy on payroll tax and \$2.3 billion through the COVID debt levy on landholdings. At 30 June 2025, the VFF held \$9.9 billion in investments. Over the last 2 years, it has received \$236 million in contributions from government land sale proceeds and has earned \$1.6 billion in investment returns.

The government has not publicly reported its progress on the COVID Debt Repayment Plan since introducing the initiative.

Recommendation We recommend DTF works with the government to regularly publish updates on its progress against the COVID Debt Repayment Plan.

3.3 GGS emerging risks

Emerging risks may affect the state's ability to meet short-term financial targets and sustain long-term fiscal health

Risks to fiscal sustainability currently remain elevated

The government aims to maintain its operating cash surplus over the forward estimates, achieve a moderate net operating surplus by 2025–26 and stabilise and then reduce debt as a proportion of GSP by 2027–28.

There are several emerging risks likely to challenge the state's ability to meet short-term financial targets, savings initiatives and manage its long-term sustainability. These risks require close monitoring, proactive management and integration into longer-term fiscal planning.

These emerging risks are evident across the GGS and within the public financial and non-financial corporation sector, highlighting the need for a holistic response.

Emerging risks in the GGS are:

- growing indebtedness of the state
- rising interest costs of new and refinanced debt
- increasing employee costs
- expense management amid rising service demand
- financial sustainability pressures with domestic building insurance (DBI)
- limited capacity to meet new revenue and income streams
- unplanned and/or significant cost escalations of major infrastructure projects
- rising costs of government redress schemes
- growing trust fund balances
- potential accounting changes may alter how the VicTrack–DTP lease is recorded in the GGS.

Emerging risks beyond the GGS (discussed in Section 3.4) are:

- WorkCover reforms have taken effect, however, risks to the scheme's financial sustainability remain
- potential challenges to achieving the unfunded superannuation funding target.

These risks are discussed further below.

Growing indebtedness of the state

Managing debt at a sustainable level: a key requirement for fiscal sustainability

Managing debt at a sustainable level allows the government to borrow at a lower cost, allocate limited financial resources to essential services, respond effectively to future crises and ensure intergenerational equity.

Several measures of fiscal sustainability indicate that Victoria's debt burden has increased while the state's ability to service these debts has decreased.

The state Budget and fiscal strategy contain several measures aimed at achieving fiscal sustainability. The government assesses the sustainability of the debt by applying the following financial measures:

- net debt to GSP
- interest expense to revenue.

We also consider the following to be appropriate measures:

- gross debt to GSP
- gross debt to revenue (indebtedness) – gross debt as a proportion of operating revenue
- interest expense relative to the portfolio of debt – considering new and refinanced (rolled over) debt and the maturity profile.

The impact of rising debt and interest expense on these debt sustainability measures are discussed further below.

Intergenerational equity

Intergenerational equity means fairly sharing economic costs and benefits of the government's fiscal policy decisions, such as taxation, public spending and borrowing, across different generations.

Gross debt to GSP is forecast to stabilise

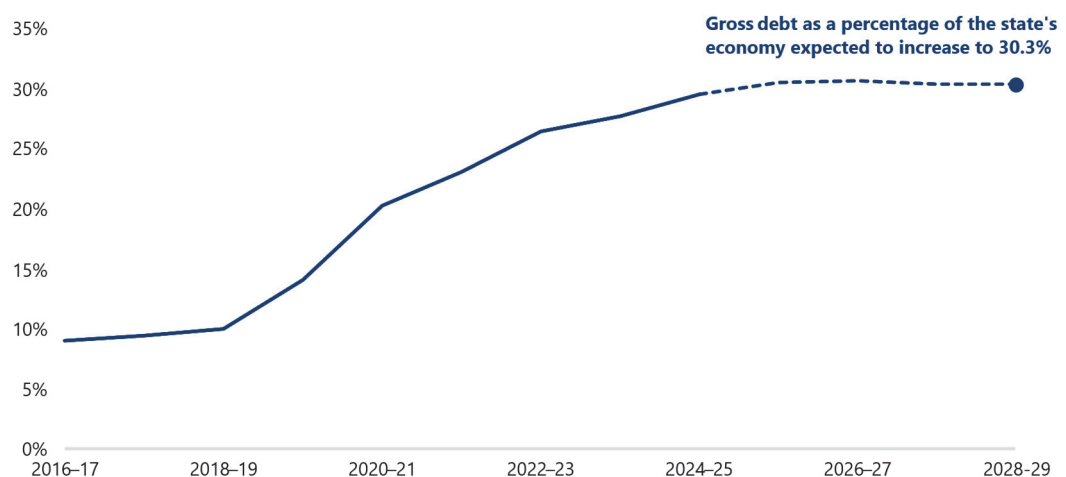
Gross debt to GSP is a key financial measure of the GGS and an indicator of the size of the state's debt in relation to the size of the economy.

The higher this ratio, the more difficult it is for the state to pay back its debt.

An increasing ratio means that state debt is growing faster than the economy while a decreasing ratio shows that debt still grows, however, at a slower pace than the economy. An increasing and higher ratio puts added pressure on debt service costs and in turn, the net operating result, making debt repayment harder.

Figure 18 shows that gross debt as a percentage of GSP has rapidly grown over the last 9 years and is expected to stabilise. The 2025–26 state Budget forecasts that gross debt will stabilise around 30 per cent as a proportion of GSP by 2027–28 and then begin to decline marginally from 2027–28.

Figure 18: GGS gross debt as a percentage of GSP



Source: VAGO, based on the AFR and state Budget.

Average growth of GGS gross debt from 2016–17 to 2018–19 was 10.2 per cent per year. GGS gross debt grew by an average rate of 27.0 per cent per year from 2019–20 to 2024–25 due to significant investment in infrastructure programs and pandemic-related expenses.

Gross debt to GSP was at 29.5 per cent at 30 June 2025. The state Budget forecasts this to peak at 30.7 per cent by 30 June 2027 before declining to 30.3 per cent by 30 June 2029. The government projects taking on \$48.8 billion in gross debt over the 4-year period ending 30 June 2029.

Steps 4 and 5 of the government's fiscal strategy aim to stabilise and reduce net debt as a proportion of GSP from 2027–28. The government has committed to reduce net debt to GSP from

25.2 in 2026–27 to 25.0 per cent by 2027–28. This measure indicates the intended trajectory of debt relative to the size of the economy, however, the government has not established a long-term specific target for net debt to GSP ratio or ceiling on the quantum of debt it plans to take on.

Achieving consistent and higher nominal economic growth is key to achieving steps 4 and 5 of the fiscal strategy. However, it may not address the sustainability risks associated with growing debt.

Gross debt as a proportion of revenue is projected to rise to over 200 per cent by 2028–29

While governments commonly use net debt as a proportion of GSP as a measure, gross debt to public sector operating revenue is also a useful measure of fiscal sustainability.

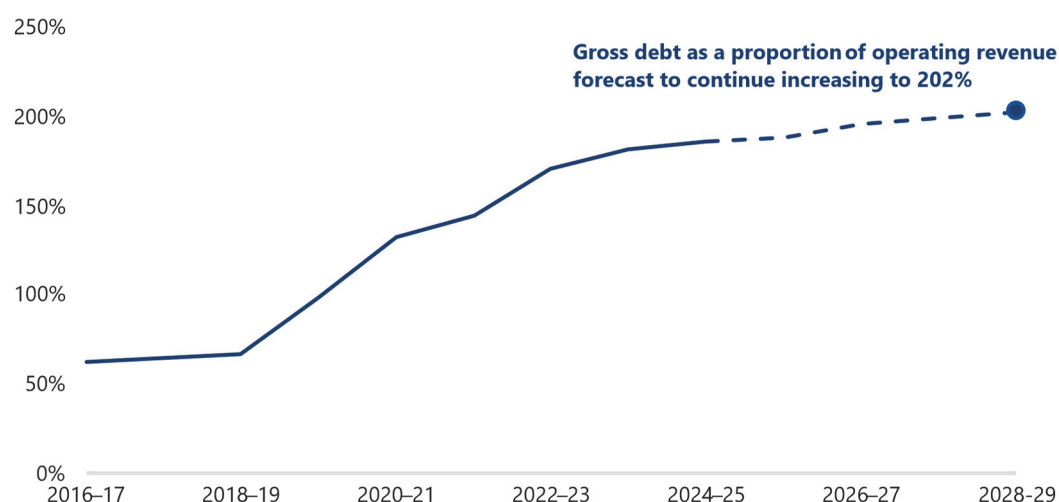
This measure shows government debt relative to revenue, which is the primary source of cash inflows used to pay interest and repay principal. It provides a clear indication of the government's capacity to meet its debt obligations.

This can be particularly informative:

- if the growth in state revenue uncouples from economic growth
- in a higher interest rate environment, especially where the interest rate is higher than annual GSP growth and the government's revenue growth.

Figure 19 shows that gross debt as a proportion of operating revenue is continuing to increase.

Figure 19: GGS gross debt as a proportion of operating revenue



Source: VAGO, based on the AFR and state Budget.

In this scenario, debt servicing and allocating money to essential services can become problematic because interest repayments take a greater bite from operating revenue.

Rising interest costs of new and refinanced debt

Interest expense is rising faster than revenue – interest bite

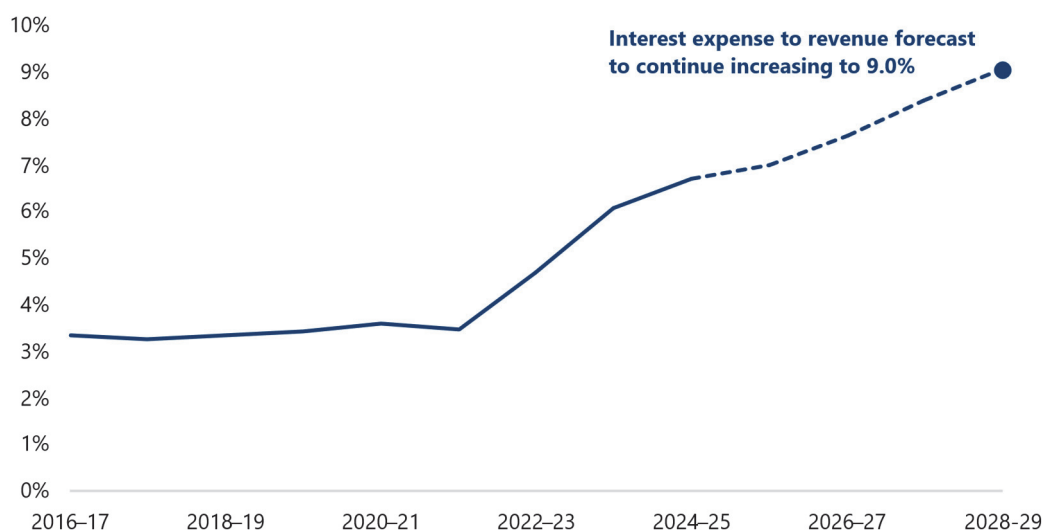
Stabilising the GGS's interest expense as a percentage of revenue in the medium term is one of the government's financial measures and targets.

As the state's debt increases and interest rates remain elevated, so does the interest expense incurred to service the debt.

Comparing interest expense to operating revenue provides information on the share of revenue devoted to servicing costs of debt (the interest bite).

Figure 20 shows that the interest bite has and will continue to increase significantly over the next 4 financial years. In 2024–25, 6.7 per cent of the GGS's operating revenue, or \$6.8 billion, was needed to service debt costs compared with 3.4 per cent, or \$2.3 billion, in 2019–20. This is estimated to increase to 9.0 per cent, or \$10.6 billion of total operating expenditure, by 2028–29.

Figure 20: GGS interest expense as a percentage of revenue



Source: VAGO, based on the AFR and state Budget.

Although the government aims to stabilise interest expense to revenue in the medium term, it has not specified the timing or level at which the stabilisation is expected.

When the government spends more money on interest payments, there will be less money available for public services.

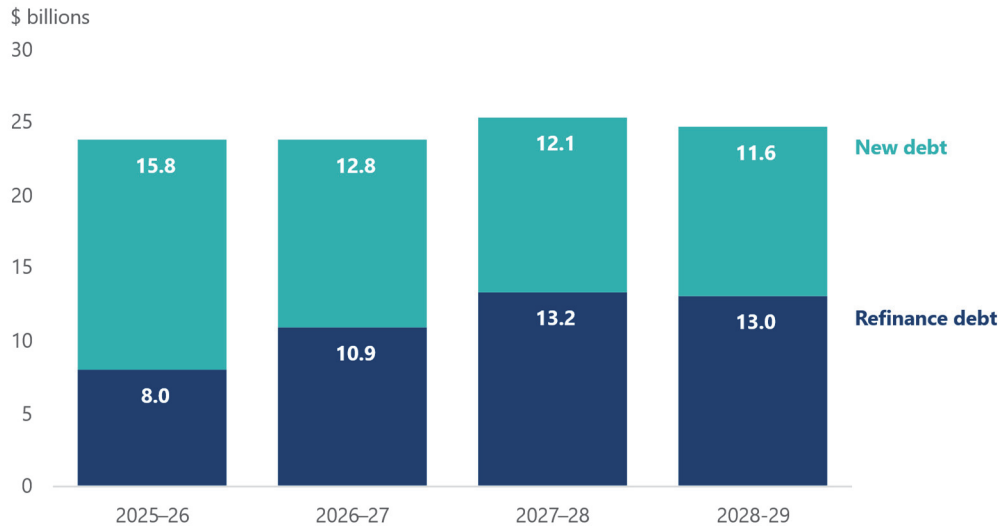
The move from low to high interest rates significantly increased the interest bite

The shift from a low to high interest rate environment following COVID-19 has and will continue to increase the cost of borrowing. As a result, interest costs on new and refinanced debt are becoming a larger share total operating expenditure.

TCV raises debt for the state by issuing government bonds to both the domestic and international capital markets. It then on-lends this to DTF or other government entities. TCV lends more than 80 per cent of its funds to the GGS via DTF, which uses the funds borrowed to finance the government's initiatives.

The 2025–26 state Budget estimates GGS gross debt to reach \$236.6 billion by 30 June 2029. Over the next 4 years, TCV plans to provide \$52.3 billion in new financing and to refinance \$45.1 billion of existing GGS debt as it matures over the same period, as seen in Figure 21.

Figure 21: Total financing required by GGS by origin over the next 4 years (\$ billions)

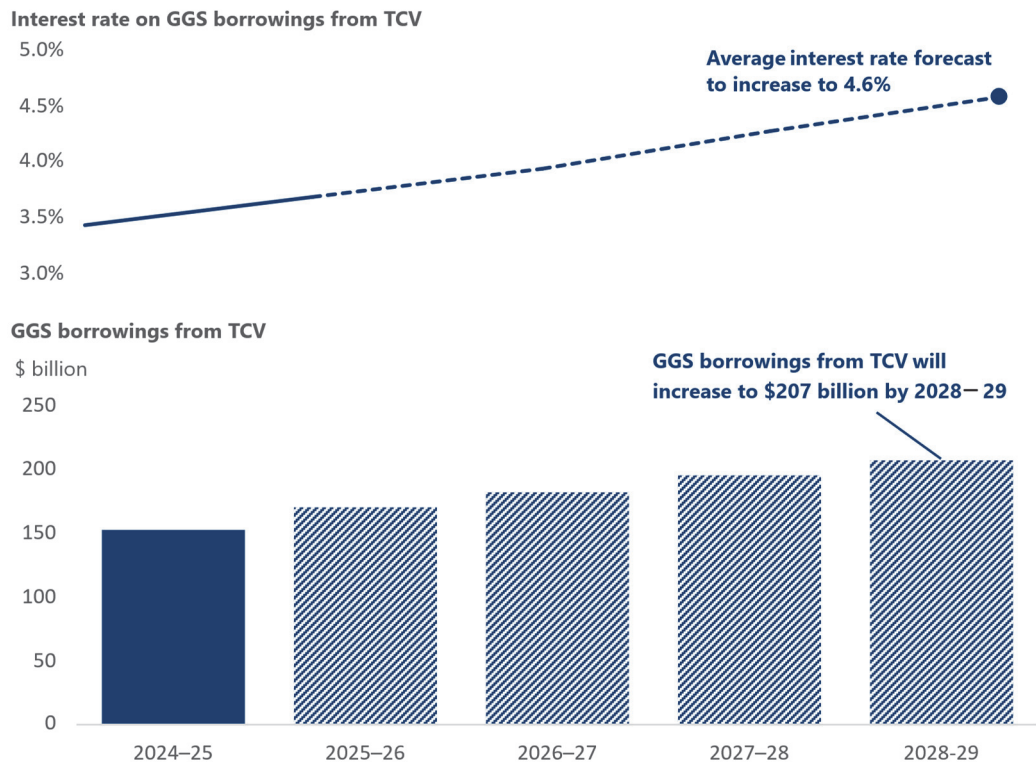


Note: New debt refers to the funds required to finance new capital projects and operational needs. Refinance debt refers to the replacement of an existing debt obligation with another debt obligation under different terms. It is usually performed to extend the original debt over a longer period of time, to change fees or interest rates or to move from a fixed to variable interest rate.
Source: VAGO, based on TCV.

The \$45.2 billion of debt to be refinanced over the next 4 years was originally incurred during the pandemic and earlier in low-interest-rate periods. As of 30 June 2025, this debt carried an average interest rate of 2.7 per cent. In today's higher-interest rate environment, TCV expects that any refinanced and new debt taken on by the GGS will attract significantly higher interest rates.

Figure 22 shows the GGS's actual borrowings as of 30 June 2025, along with forecast borrowings and the corresponding average interest rates on those borrowings over the next 4 years.

Figure 22: GGS borrowings from TCV and related interest rates



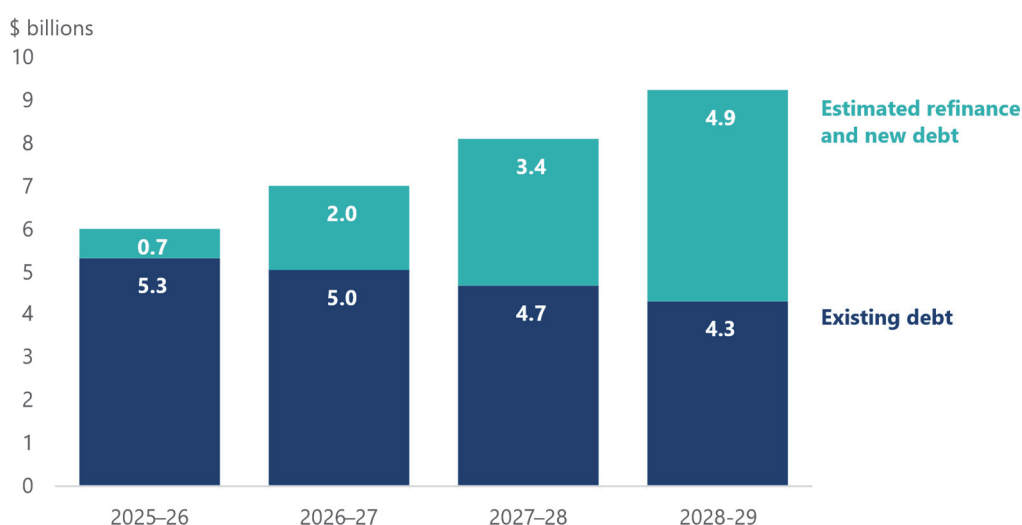
Source: VAGO based on TCV and DTF.

By 30 June 2025, GGS had borrowed \$153.1 billion from TCV with an average interest rate of 3.4 per cent per annum.

As GGS refinances maturing debt and borrows new funds from TCV to support its capital program, total GGS debt is forecast to grow to \$207 billion by 30 June 2029, with an average interest rate of 4.6 per cent.

Between 2025–26 and 2028–29, interest payments on current GGS debt will decline from approximately \$5.3 billion to \$4.3 billion as those debts mature. However, as the GGS refinances existing debt and secures new borrowings, it will do so at higher rates. This means interest expenses on new financing are projected to rise from approximately \$0.7 billion to over \$4.9 billion between 2025–26 and 2028–29, as shown in Figure 23. This increase brings the total expected interest expense to \$9.2 billion by 2028–29.

Figure 23: GGS expected interest cost on TCV debt including new and refinanced debt



Source: VAGO, based on TCV.

The higher interest rates are projected to add over \$4.0 billion to the GGS interest bill over the next 4 years, on top of the increasing costs from new borrowings.

This increase presents a significant financial sustainability challenge because it reduces the share of revenue and income available for use on public service delivery.

Government bond

A government bond is a loan for a specified period with regular interest payments and repayment of face value in full at the maturity.

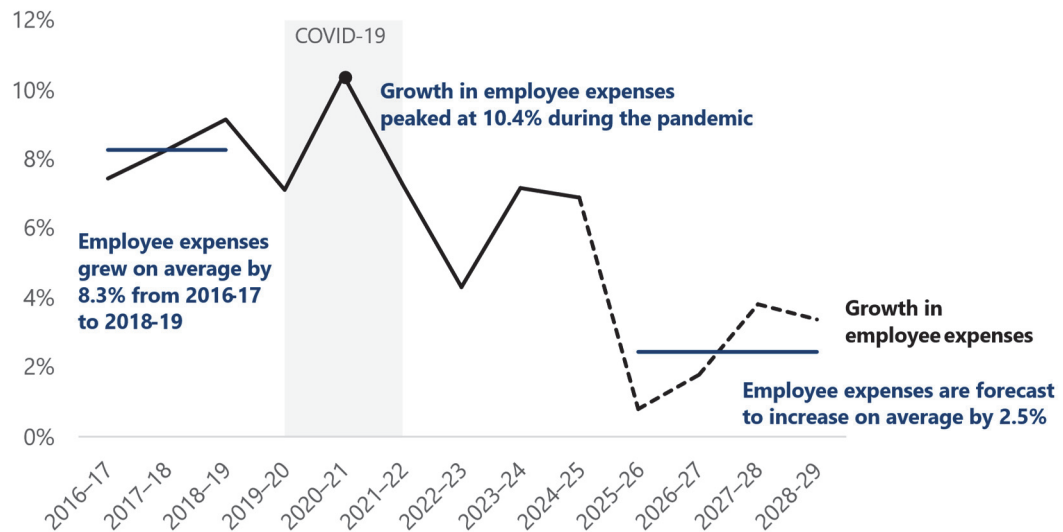
Employee expenses continue to grow despite efforts to contain the rate of increase

Rising employee costs Employees are the state's largest single operating expense.

In 2024–25, the GGS spent \$38.5 billion on employees, which represents 37.0 per cent of its total expenses, \$2.0 billion more than \$36.5 billion allocated in the 2024–25 state Budget. The state Budget forecast that this will rise to \$42.4 billion by 30 June 2029.

Figure 24 shows GGS annual employee expense growth from 2016–17 through to 2024–25, including Budget estimates and forward projections for the period from 2025–26 to 2028–29.

Figure 24: Growth in GGS employee expenses



Note: Averages are shown as horizontal lines.
Source: VAGO, based on the AFR and state Budget.

GGs employee expenses have increased by 41.5 per cent, rising from \$27.2 billion in 2019–20 to \$38.5 billion in 2024–25. Growth rates peaked at 10.4 per cent in 2020–21 due to the government's pandemic response, but have gradually declined to 6.9 per cent in 2024–25.

The recent growth reflects both an increase in FTE staff in frontline services and wage growth, particularly driven by enterprise bargaining agreement (EBA) negotiations.

Achieving the forecast modest growth will be challenging

The government forecasts that the employee expense will grow by 10.2 per cent over the next 4 years, reaching \$42.4 billion in 2028–29. This represents a modest average annual increase of 2.6 per cent, compared with the average annual growth of 7.6 per cent over the last 8 years. In 2024–25 alone, employee expenses grew by 6.9 per cent, nearly doubling the budgeted growth of 3.6 per cent.

Managing employee expense growth within forecast levels over the next 4 years presents a considerable fiscal sustainability challenge to the government. Recent EBAs finalised in 2024–25 for Victoria Police and nurses and midwives have resulted in wage increases well above the Victorian Government *Wages Policy and the Enterprise Bargaining Framework*, which targets a 3 per cent annual increase in wages and conditions. The Victoria Police EBA has introduced a compounded salary and allowance increase exceeding 18 per cent over 4 years, while the *Nurses and Midwives (Victorian Public Sector) Single Interest Employer Agreement 2024–28* provided for more than a 28 per cent cumulative wage increase during a 4-year period.

Employee expenses are likely to face further pressure in the coming years, with several significant EBAs due for negotiation, such as teachers, doctors in training and medical specialists, and allied health professionals. Combined with growing demand for public services driven from population growth, these factors will continue to strain the government's ability to contain employee expense growth.

Cost-saving initiatives are a key focus by government to contain the rate of increase in employee costs

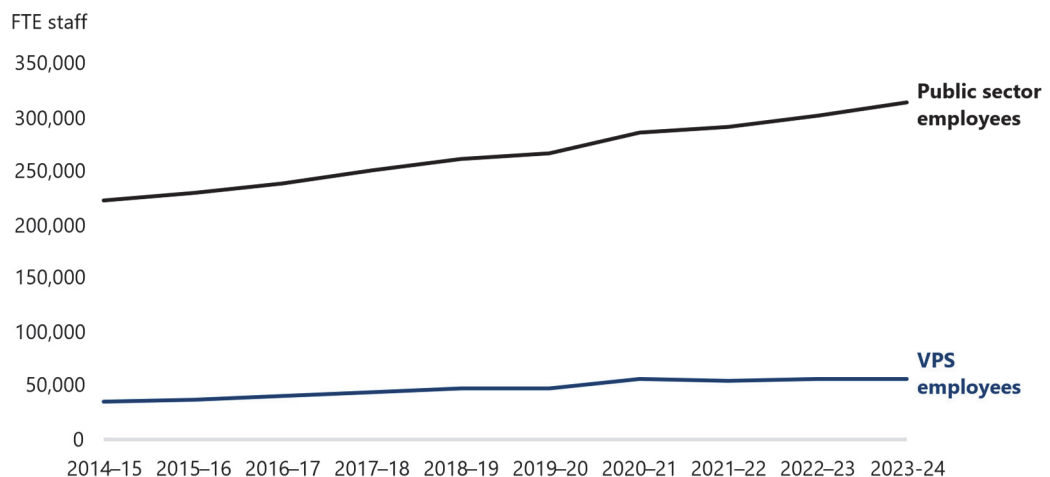
In recent years, the government has included targeted cost-saving measures in the Budget, primarily through staff reductions. In the 2025–26 state Budget, the government announced an additional \$3.3 billion savings target, which includes reducing employee expenses. The government aims to manage the rising employee expense through these saving initiatives and its wages policy, which sets parameters around public sector enterprise bargaining. However, these efforts have not successfully curbed the growth in employee expenses in recent years.

In February 2025, the government established an independent review, led by Ms Helen Silver, (the Silver Review) to recommend ways to rightsize program expenditure and return the VPS to its pre-pandemic share of employment. The review covers VPS departments and their portfolio entities and includes an assessment of appropriate executive staffing levels.

The government received the final report in July 2025, but has not yet published the report or its response to the recommendations.

Figure 25 shows that the number of VPS employees and public sector employees overall increased over the 10-year period to 30 June 2024. At the time of writing this report, the Victorian Public Sector Commission had not released employee data for the year ended 30 June 2025.

Figure 25: Number of VPS employees (FTE)



Source: VAGO, based on the Victorian Public Sector Commission.

Over the 10-year period to 30 June 2024, VPS employees grew by 64.2 per cent, while all public sector employees grew by 45.2 per cent. Between 2018–19 and 2020–21, VPS employees rose by 8,487 FTE, or 18.0 per cent, as the government responded to the COVID-19 pandemic. Since then, growth in VPS FTE employees has stabilised. As a share of total public sector employment, VPS FTE numbers have returned to pre-COVID-19 levels. This is because overall public sector employment has continued to grow, which has reduced the VPS share relative to the total public sector employment.

Between 2020–21 and 2023–24, the number of VPS FTE employees decreased by an annual average of 0.5 per cent, dropping from 55,735 in 2020–21 to 54,837 in 2023–24. In contrast, total Victorian public sector FTE employees increased by an average of 3.4 per cent per year, growing from 284,937 in 2020–21 to 314,629 in 2023–24. This growth was primarily driven by increases in frontline staff across healthcare, education, police and emergency services. Employee expenses during the same period grew by 6.3 per cent per annum.

The government's recent cost-saving measures, including those outlined in the 2025–26 Budget, rely heavily on staff reductions to meet savings targets and the GGS's financial targets. If these initiatives do not deliver the savings expected, the employee cost will exceed the projections and the targets will not be achieved.

The VPS

The VPS comprises of around 40 government departments, agencies and administrative offices. The VPS includes frontline employees, such as the justice and corrections workforce.

The Victorian public sector

The Victorian public sector comprises of around 1,750 organisations, including 1,500 schools and 250 entities, such as hospitals, emergency services, water authorities, cemetery trusts, creative industry agencies and sport and recreation organisations. These agencies fall within the GGS and public corporation sectors.

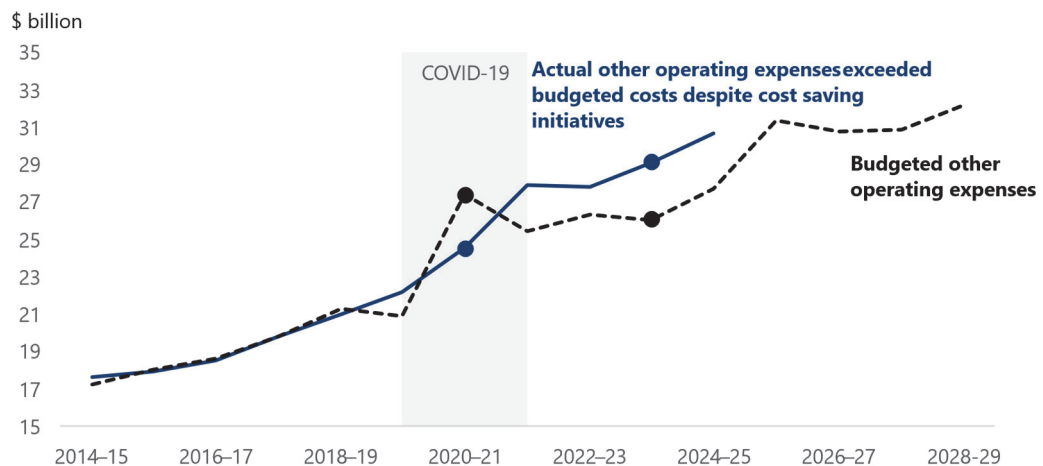
Expense management amid rising service demand

Operating expenses exceed budget estimates despite cost-saving initiatives implemented

Other operating expenses represent the second-largest component of GGS expenses, accounting for nearly 30 per cent of total expenses, or \$30.7 billion, in 2024–25.

Since 2021–22, the GGS has exceeded the expense estimates set in the Budget. Figure 26 shows the actual operating expenses from 2016–17 to 2024–25, alongside the budgeted operating expenses from 2016–17 through to 2028–29. Despite implementing several cost-saving initiatives, the GGS has consistently exceeded its budgeted operating expense targets. Over the last 2 years, actual expenses have exceeded Budget estimates by approximately \$3 billion each year.

Figure 26: GGS operating cost

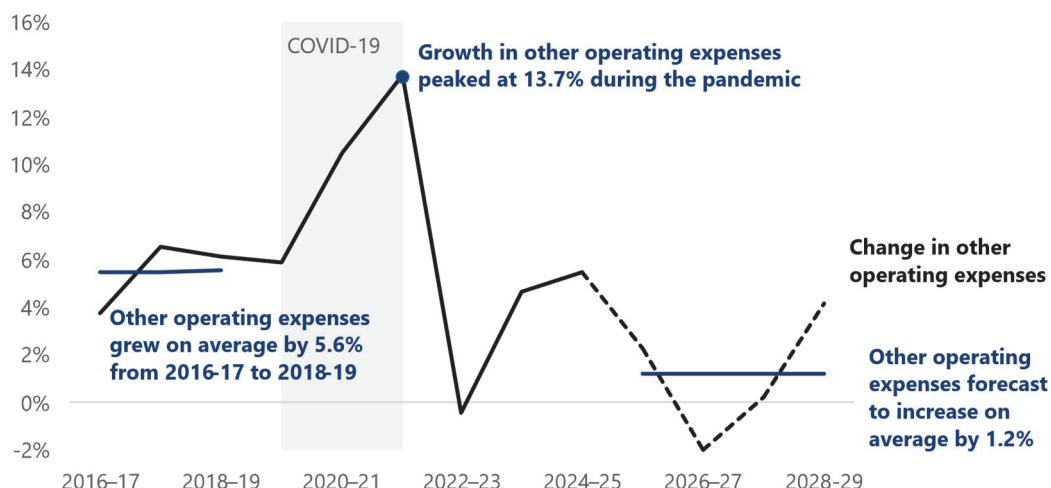


Source: VAGO, based on the AFR and state Budget.

As shown in Figure 27, other operating expenses grew at an average rate of 5.5 per cent from 2016–17 to 2018–19. During the pandemic it peaked at 13.7 per cent per annum.

The government forecasts other operating expenses to grow at a modest rate of 1.2 per cent over the next 4 years to \$32.2 billion by 2029.

Figure 27: GGS operating cost growth



Note: Averages are shown as horizontal lines.
Source: VAGO, based on the AFR and state Budget.

To achieve its financial objectives, the government must keep growth of recurrent expenses aligned with forecasts or below. It has been working to slow the growth of operating expenses through various saving initiatives announced in previous state Budgets. Delivering these savings remains difficult due to:

- challenging economic conditions that drive expense growth, including inflation and increased demand for public services driven by population growth
- financial discipline required by departments and agencies that must maintain service delivery despite reduced or reprioritised funding and constraints from earlier savings measures.

Financial sustainability pressures of the DBI scheme

Scheme moves into the GGS

On 1 July 2025, the Victorian Government established the Building and Plumbing Commission (BPC) as Victoria's new regulator for the building and plumbing sectors. The BPC is a GGS entity, created under the *Building Legislation Amendment (Buyer Protections) Act 2025*.

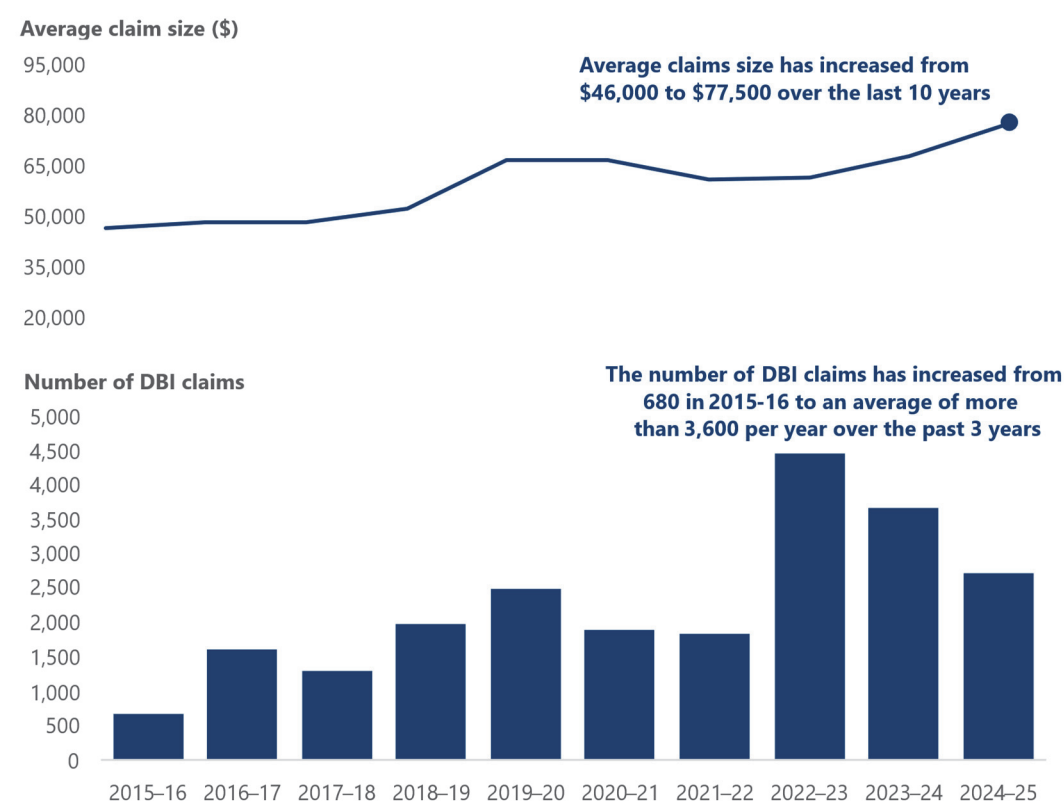
As part of this reform, the legal entity remains the Victorian Building Authority (VBA), now trading as the BPC. The BPC brings together the functions of the VBA, Domestic Building Dispute Resolution Victoria, and the Domestic Building Insurance responsibilities, including issuing policies and claims management of DBI products, which were previously administered by the Victorian Managed Insurance Authority (VMIA), a public financial corporation.

In recent years the DBI scheme has faced financial sustainability challenges

At 30 June 2025, the DBI portfolio had \$205 million in assets and \$695 million in estimated liabilities, resulting in a net shortfall of \$490 million. The shortfall grew over several years because of the sharp rise in builder insolvencies given industry challenges, which triggered a surge in insurance claims across the domestic building sector.

Figure 28 shows the number of DBI claims and the growth in claim size from 2015-16 to 2024-25.

Figure 28: Number of DBI claims and average claim size



Source: VAGO, based on VMIA.

DBI claims rose sharply from 680 claims in 2015–16 to a peak of 4,459 in 2022–23 largely due to builder insolvencies. Although the number of claims has gradually decreased over the last 2 years, falling to 2,703 in 2024–25, it remains higher than the historical experience.

The average size of a DBI claim also rose significantly. In 2015–16, the average was approximately \$46,000. By 2024–25, it had increased to \$77,500, growing by more than 68 per cent. In 2024–25 alone, the average DBI claims size grew by 14.6 per cent.

The state provided financial support of \$590 million to facilitate the transfer

Due to the \$490 million shortfall in the DBI portfolio caused by adverse claims experience, the state contributed \$590 million in capital to the VMIA, a public financial corporation entity, to support the transfer. VMIA then transferred the \$590 million cash contribution, along with other assets and liabilities, to the BPC.

Without this capital injection from the state, the BPC, a GGS entity, would have incurred an estimated loss of \$490 million at 1 July 2025.

DBI's financial sustainability is key to achieving the BPC's objectives

In 2025–26, the BPC will consolidate several business functions through the legislative change. The government established the BPC to simplify regulation, protect consumers, support industry professionals and maintain public trust in the building and plumbing sector.

Managing the DBI scheme as a GGS entity may increase financial pressure on the government's fiscal targets if adverse claims experience continues, where unplanned funding may be required to support BPC operations.

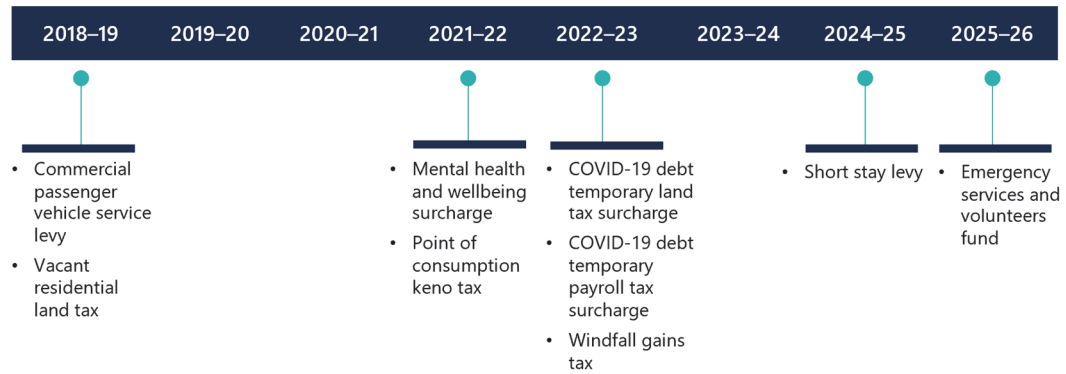
New revenue and income opportunities

Sources for raising additional revenue and new cash inflows are diminishing

In 2024–25, the GGS reported \$101.4 billion in revenue and income, an increase of \$8.3 billion from \$93.1 billion of 2023–24.

As shown in Figure 29, the government has introduced several new taxes in recent years, resulting in increased tax revenue. These taxes have supported the government to manage financial outcomes and the impact of rising costs.

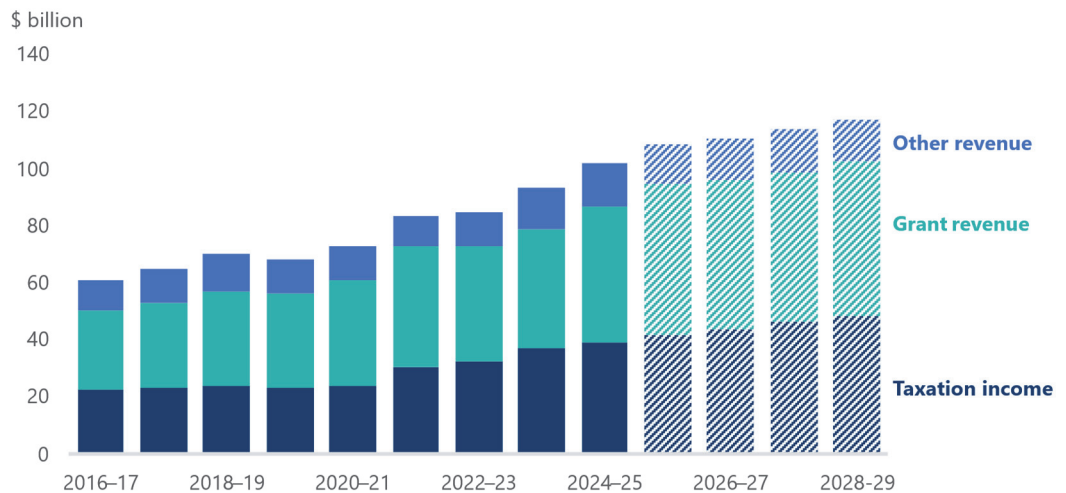
Figure 29: New taxes introduced by the government



Source: VAGO, based on the State Revenue Office.

Figure 30 shows that revenue and income increased by 49.3 per cent from \$67.9 billion in 2019–20 to \$101.4 billion in 2024–25. Taxation and Australian Government grants made up the majority of this revenue and income, representing 38.4 per cent and 46.7 per cent, respectively.

Figure 30: GGS revenue composition



Source: VAGO, based on the AFR and state Budget.

Taxation income has grown by 68.1 per cent since 2019–20, driven in part by new taxes. The mental health and wellbeing surcharge and COVID-19 debt levies for payroll and land tax contributed \$3.1 billion and \$3.3 billion in additional tax income in 2023–24 and 2024–25.

Commercialisation opportunities are declining Commercialising government assets and services has been a significant source of cash inflows to the government and has brought in a substantial amount of revenue in recent years.

In the last 9 years, several assets and functions have been commercialised or leased to private entities. Key transactions include:

- leasing the Port of Melbourne land, channels and infrastructure assets for an upfront payment of \$9.7 billion in 2016–17
- commercialisation of Victorian Land Registry Services for \$2.9 billion in 2018–19
- VicRoads modernisation joint venture arrangement for \$7.9 billion in 2022–23.

The receipt of \$20.5 billion in funds from these arrangements has supported the government in managing operating and investing cash needs. However, it has also lost access to some future cash inflows previously generated from these assets and services.

Unplanned and significant cost escalations of major infrastructure projects

Cost escalation of major infrastructure projects is a significant fiscal sustainability challenge

This year, the GGS outlaid \$16.2 billion on infrastructure and capital assets – a decrease of \$1.2 billion from last year's \$17.4 billion.

For the last 5 years, we have tracked the performance of major projects costing \$100 million or more. We are currently reviewing major projects that were complete and active at 30 June 2025 and listed in Budget Paper 4: State Capital Program as part of our limited assurance review Major Projects Performance Reporting 2025. This review report is scheduled for tabling in 2026.

Through our reviews, we have consistently observed cost escalations in major projects. For example, the total estimated investment (TEI) of the Metro Tunnel Project was \$10.9 billion when it first appeared in Budget Paper 4 in 2016. The 2024–25 state Budget reported the TEI as \$12.6 billion, however, as of 30 June 2025, the TEI is estimated to reach \$13.5 billion. This represents an increase of \$0.9 billion since the last year, and an increase of \$2.6 billion, or 23.9 per cent, since the project first appeared in Budget Paper 4.

The cost escalations in major projects can be attributed to several reasons both within and beyond the control of the state, including:

- staging of funding increases after projects develop more detailed plans
- redesigning or increasing the scope or capacity of a proposed project
- the impact of decisions about adopting procurement models
- unexpected price increases after market engagement
- volatility in the construction industry and supply chains
- contract variations signed with private sector parties.

Costs escalations, regardless of their causes, may require additional funding.

In the 2025–26 state Budget the government committed to investing \$212.7 billion in capital projects. This is a net increase of \$4.7 billion compared with the same time last year. If cost escalations in current and new major projects persist, it will further significantly strain the state's fiscal sustainability.

Rising costs of government redress schemes

Redress scheme provisions

In recent years, the government has established several redress schemes to recognise and address harm experienced by individuals in institutional care or other government settings. These schemes offer financial compensation, provide access to counselling and support services and deliver formal apologies as part of the government's broader commitment to justice and healing.

To manage its financial obligations associated with the schemes and comply with the Australian Accounting Standards, the government recognises a liability in the financial report when it can reliably measure the payment obligations expected from the scheme.

At 30 June 2025, the government has recognised liabilities relating to the following schemes:

- Redress for Historical Institutional Abuse
- Fiskville Redress Scheme
- Stolen Generations Reparations Package
- The Restorative Engagement and Redress Scheme for Victoria Police
- Financial Assistance Scheme (victims of crime)
- Historical Forced Adoptions Redress Scheme
- National Redress Scheme for Institutional Child Sexual Abuse.

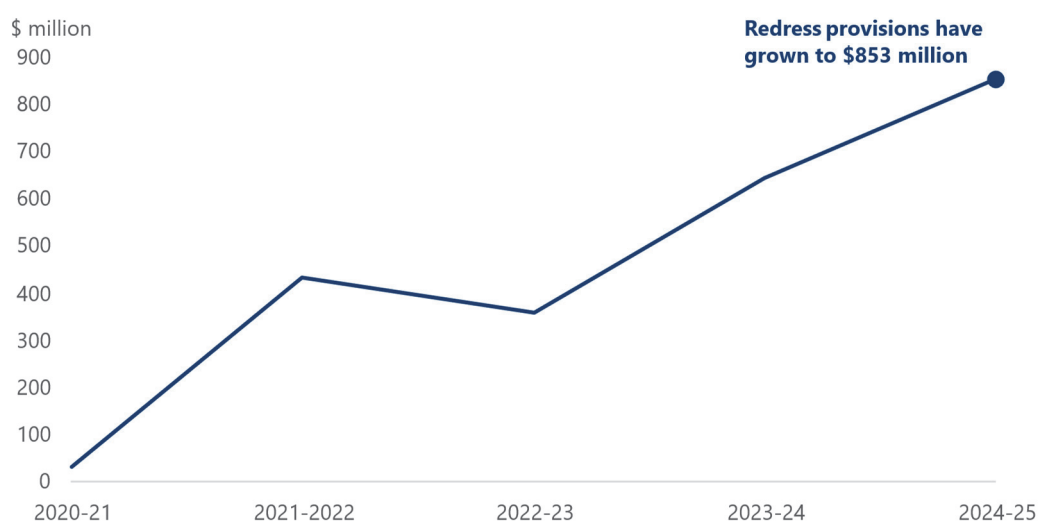
Redress scheme

A redress scheme is a program that provides support and compensation to individuals or groups who have experienced harm, often from institutions.

The scheme costs have risen significantly in recent years

The state's total provision for these redress schemes has risen significantly over the last 5 years, as shown in Figure 31.

Figure 31: Redress provisions



Source: VAGO, based on financial report disclosures of the Department of Families, Fairness and Housing and DJCS.

At 30 June 2021, the government recognised a \$30 million liability for the National Redress Scheme for Institutional Child Sexual Abuse, which was the only scheme in existence at that time. By 30 June 2025, the liability has risen to \$853 million, driven by the recognition of provisions for 6 additional redress schemes, each varying in nature and financial exposure.

Management applies significant judgement when estimating these liabilities, making them subject to material revisions in the future. The state also recognises non-quantifiable contingent liabilities because it is unable to reliably estimate liabilities for individuals who may be eligible for a particular scheme but have not yet come forward with a claim.

There is a risk that the financial impact of these schemes may exceed the current estimates in the liability. This uncertainty could further challenge the state's fiscal position and financial sustainability.

Growing trust balances

What is a trust and its purpose?

Trust accounts are established by either an Act of Parliament, under legislation for a specific purpose or the Minister for Finance under the *Financial Management Act 1994* following a request from a department.

A trust account is a legally designated fund used to manage and account for certain types of income received and expenditures held in trust for a specific purpose.

A trust account established by statute is restricted for the purpose set out in the statute.

Funds held in trust are recognised in the state's balance sheet as 'cash and cash equivalents' and 'investments, loans and placements' based on how the funds are held and invested.

How a trust operate

Trust accounts are not subject to parliamentary appropriation. Income and expenses of trusts accounts are managed by the respective departments in accordance with the legislation under which each trust account was established.

At 30 June 2025, the state had \$19.2 billion of funds held in trust, with several trust accounts for specific purposes. The major trust accounts include the VFF and the Victorian Social Housing Growth Fund with balances of \$9.9 billion and \$2.9 billion respectively.

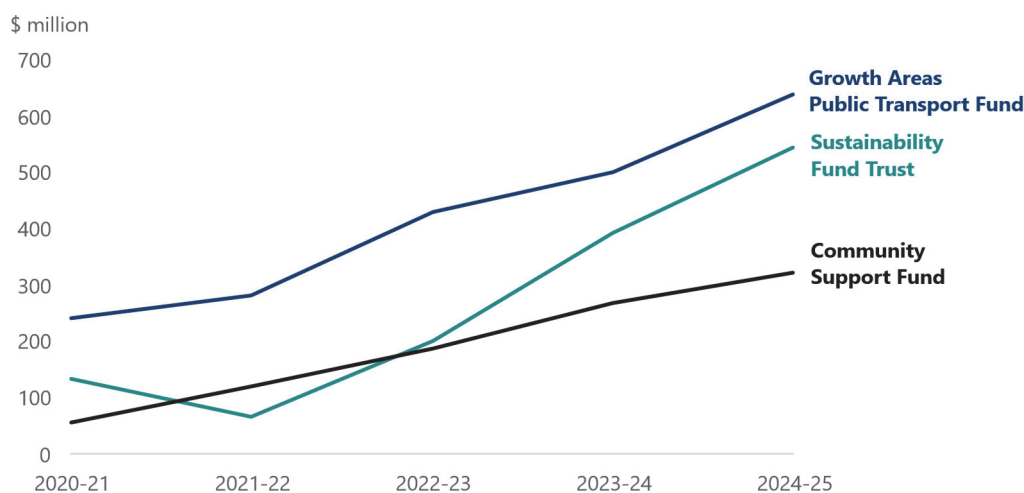
DTF and other departments administer trust funds on behalf of the state. They invest trust account money in bank deposits and other financial investments and spend funds in accordance with their purpose.

Rising trust account balances

In recent years, the balances in certain trust accounts have grown substantially because the funds have remained unspent for several years.

Figure 32 shows a growth in balances of a selection of significant trust accounts since 2020–21.

Figure 32: Significant trust account balances



Source: VAGO, based on financial report disclosures of departments.

The trust accounts shown above are hypothecated trust accounts. This means funds in these trust accounts can only be used for the purposes provided under legislation.

The Growth Areas Public Transport Fund collects levies from growth areas infrastructure contribution (GAIC levies). These funds can be used only for delivering state-funded infrastructure for new communities. This fund balance has grown to \$637.6 million at 30 June 2025 from \$431.1 million at 30 June 2023.

The Sustainability Trust Fund was established under section 449 of the *Environmental Protection Act 2017* to receive the Municipal and Industrial Land Fill Levy. The Department of Energy,

Environment and Climate Action administers this fund. Under the Act, the payments from this fund can be made only for the purposes of fostering:

- environmentally sustainable uses of resources and best practices in waste management
- community action or innovation in relation to the reduction of greenhouse gas substance emissions or adaptation or adjustment to climate change in Victoria.

The balance in the Sustainability Trust Fund has grown from \$66.8 million at 30 June 2022 to \$545.7 million at 30 June 2025.

The Community Support Fund receives a percentage of revenue generated from electronic gaming machines in hotels. The money in this fund should be used to reduce the prevalence and severity of gambling-related harm and foster responsible gambling behaviour.

The balance in the Community Support Fund has grown from \$55.2 million at 30 June 2021 to \$323.8 million at 30 June 2025.

Hypothecated trust account

A hypothecated trust account holds money collected from a specific levy for a particular purpose.

Risks arising from unspent trust balances

Trust account balances have increased significantly in recent years because the funds collected through the levies and other dedicated revenue and income sources have not been spent.

The accumulation of unspent trust account balances raises some risks for consideration:

- Agencies may not be spending funds promptly for their intended purpose, leaving community expectations unmet.
- Rising balances may signal underlying structural or operational issues that are being masked by the growing funds. These unspent balances have contributed to:
 - growth in the state's cash and cash equivalents leading to positively impacting the net operating result – a key financial measure
 - reduce reported net debt by offsetting borrowings – another important financial indicator
 - improved net result from operations because related expenditures have not yet been spent.

Recommendation Departments responsible for administering these funds assess whether the current spending patterns are effectively achieving the purposes for which these funds were established.

Potential accounting changes may alter how the VicTrack–DTP lease is recorded in the GGS

Changes to fair value relief for leased assets

As explained in Section 2, under the Australian Accounting Standards, entities must recognise leases on their balance sheets as a right-of-use asset and a corresponding lease liability.

Current relief in the standard allows not-for-profit public sector entities to measure concessionary leases, such as the VicTrack–DTP arrangement, at cost rather than fair value. Normally, leased assets under concessionary arrangements are required to be measured at fair value.

The Australian Accounting Standards Board is currently reviewing this relief to consider whether it should be lifted.

If the relief is removed, DTP may:

- be required to fair value its leased assets with VicTrack, or
- have the option to either apply cost or fair value to its leased assets.

For concessionary leases, fair value reflects the economic benefit of using the asset, not the physical asset's fair value as if owned. Therefore, the right-of-use asset's fair value is usually lower than the physical asset's fair value. The 2 values only match when the lease payments are close to market rates and the lease gives the entity almost all the benefits of owning the asset.

What's the impact to the GGS if fair value is applied?

We have conveyed to DTF and DTP that in our opinion, if the relief is removed and entities can choose between cost or fair value, applying cost is not an appropriate outcome.

This is because not applying fair value and an appropriate depreciation charge prevents DTP's and the state's financial reports from showing the true economic cost of using transport infrastructure for public services in the GGS.

If DTP applies fair value to its leased assets:

- right-of-use assets for the VicTrack–DTP arrangement would increase
- depreciation expense would increase
- the GGS net result would decline due to higher depreciation.

We cannot reliably estimate the impact without DTP undertaking a valuation exercise over the lease arrangements.

3.4 Emerging risks beyond the GGS

Why the financial sustainability of public corporations is important for the GGS and Victorians

Public corporations' financial sustainability

Public corporations in Victoria play a crucial role in providing services to Victorians and fulfilling the government's economic, social and public policy objectives. They provide services in sectors considered essential or strategic, such as transportation, utilities and public financial services.

Financial sustainability of public financial corporations is critical for the government's overall fiscal sustainability. It allows these corporations to continue providing essential services without disruption and improve the quality of services by way of investing in innovation and new development.

Non-sustainable financial corporations can add financial strain on the GGS's financial position because taxpayers' money is often used to support the financial health of these corporations.

Further, fees and levies charged by these corporations to the public may increase adding financial burden to citizens.

Transactions with these public financial corporations also have a significant impact on the GGS operating result, balance sheet and operating cash result outcomes in varying ways. The government:

- in recent years, has used taxpayers' money to support the financial sustainability of WorkSafe Victoria. As an example, WorkSafe Victoria received \$1.3 billion from the government across 2020–2023 to support its financial sustainability
- sources income from these corporations through dividends, grants, taxation-equivalent payments, levies and capital repatriation that helps with the financial outcomes of the GGS. As an example, the TAC paid a \$0.7 billion (2024: \$1.1 billion) dividend to DTF this year.

There are 2 emerging risks in the public corporation space that require close attention by the government to avoid further sustainability challenges. They are discussed below.

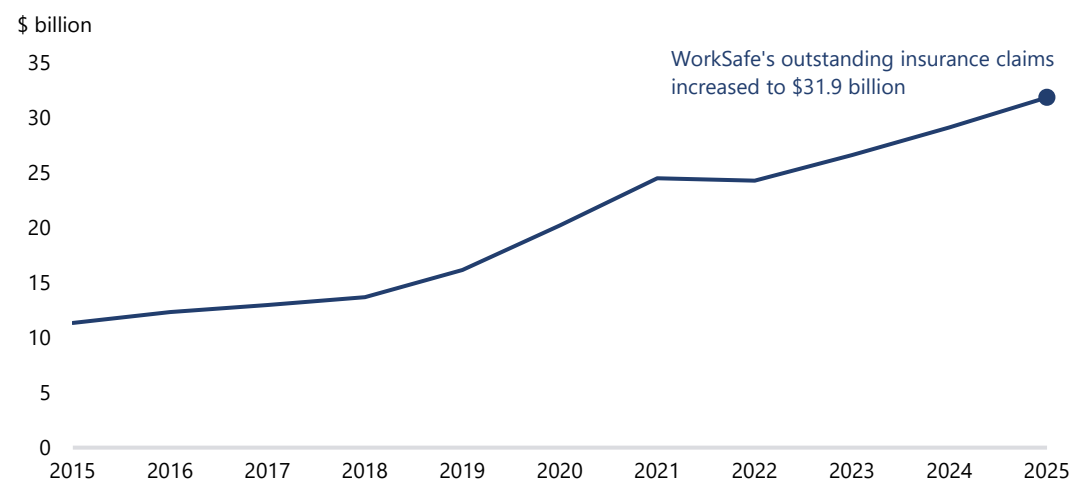
WorkCover reforms have taken effect, however risks to the scheme's financial sustainability remain

WorkSafe Victoria contributes 59.3 per cent to the state's insurance liability and remains the primary driver of the growth

WorkSafe Victoria is Victoria's workplace health and safety regulator. It manages the WorkCover insurance scheme and aims to reduce harm in the workplace and improve outcomes for injured workers.

Figure 33 shows that the value of WorkSafe Victoria's outstanding insurance claims has increased by more than 97.1 per cent since 2018–19.

Figure 33: WorkSafe Victoria's outstanding insurance claim liabilities at 30 June



Source: VAGO, based on data from WorkSafe Victoria's financial reports.

Weekly benefits paid to injured workers and common law claims are primary drivers to the significant growth in WorkCover claim costs and outstanding insurance claim liabilities. Weekly benefit payments replace lost wages when workers cannot work due to mental or physical injuries. Common law claims arise when workers pursue compensation through the legal system.

In 2024–25, outstanding insurance liabilities increased by \$2.7 billion, up from an increase of \$2.5 billion in 2023–24. This increase was primarily driven by a 15 per cent rise in the liability for common law claims and a 13 per cent rise in medical claims.

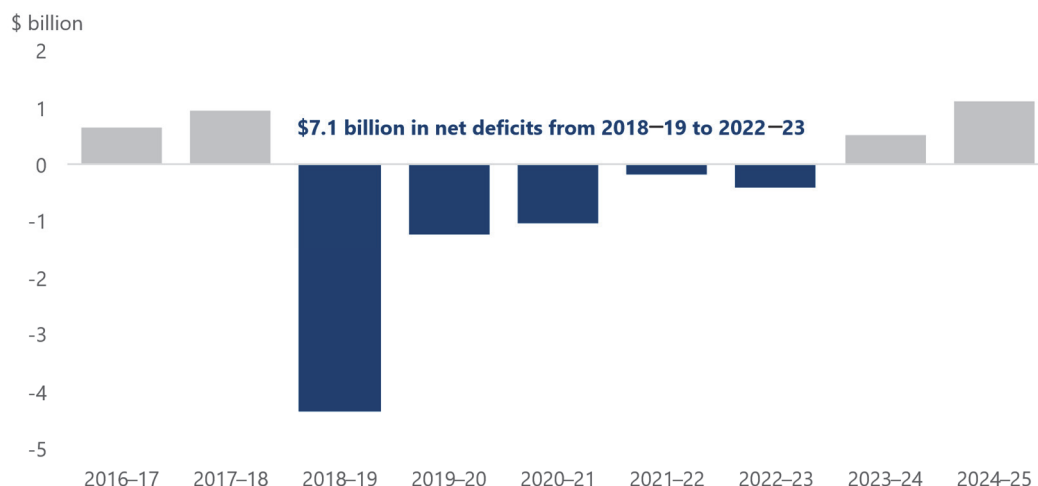
Financial sustainability challenges of WorkSafe Victoria

Prior to this year, significant increases in claim volumes and longer reliance on benefits have driven up claim costs. This was compounded by a gap between premium revenue and claims cost, causing a premium deficit and weakening the financial sustainability of the WorkCover scheme.

Our previous reports have highlighted these challenges to WorkSafe Victoria's financial sustainability, which ultimately led to the need for government financial assistance. We recommended that the government implement measures to support WorkSafe's long-term financial stability.

As shown in Figure 34, WorkSafe Victoria recorded an accumulated net deficit of \$7.1 billion between 2018–19 and 2022–23, driven by its adverse claims experience and continued premium deficit.

Figure 34: WorkSafe Victoria net results before income tax



Source: VAGO, based on WorkSafe Victoria's financial reports.

Reforms were required to address financial sustainability

To strengthen WorkSafe Victoria's financial health, the government implemented 2 key initiatives during 2023-24:

- a government-approved average premium increase of 41.7 per cent effective from 1 July 2023
- WorkCover reforms through the *Workplace Injury Rehabilitation and Compensation Amendment (WorkCover Scheme Modernisation) Act 2024*, effective from 31 March 2024. The government made 3 key changes: it tightened the rules for mental health claims, added a new requirement for long-term weekly payments, and set up Return to Work Victoria to help injured workers recover and get back to work.

These initiatives have improved financial performance and better management of claims growth over the last 2 years. WorkSafe Victoria reported an accumulated net surplus before tax of \$1.6 billion across the 2023-24 and 2024-25 financial years. It also reported an improved insurance funding ratio, reaching 113 per cent at 30 June 2025, up from 106 per cent at 30 June 2024.

Insurance funding ratio

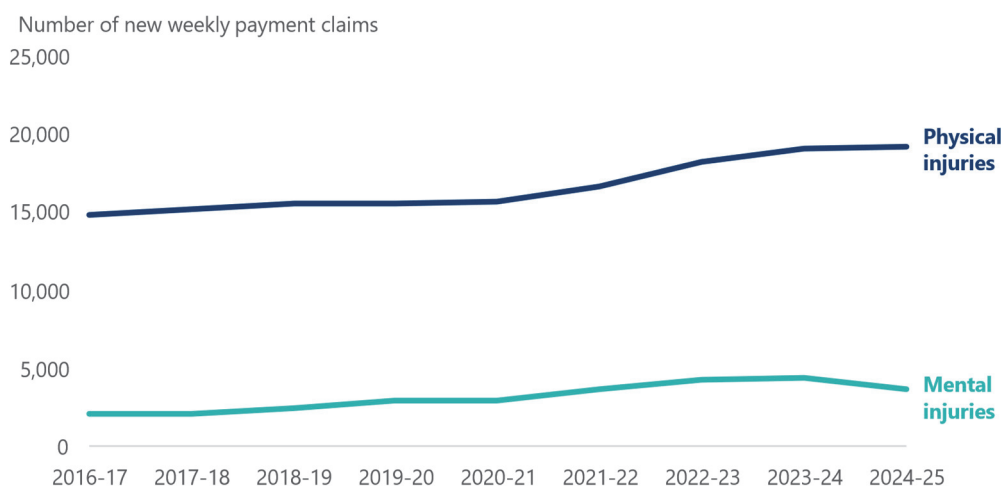
Insurance funding ratio is a measure of assets against claim liabilities used as a measure of long-term financial sustainability for a scheme. The insurance funding ratio is used to assess WorkSafe Victoria's long-term financial sustainability is within a preferred range between 100 and 140 per cent.

Following the initial implementation of the reforms on 31 March 2024, WorkSafe reduced its claim liabilities as at 30 June 2024 and claim expenses for the 2023-24 year by \$1.2 billion. This reduction primarily resulted from revaluing claims incurred prior to 31 March 2024 that had not yet reached the 130-week threshold under the new eligibility requirements.

WorkSafe Victoria expects these reforms to initially stabilise claims experience in the short term and return to a financially sustainable level in the mid to long term.

The reforms aim to lower the number of mental injury claims that result in weekly payments and decrease the proportion of all claims exceeding the 130-week threshold. Figure 37 shows the growth of physical and mental injury weekly payment claims reported from 2016-17 to 2024-25.

Figure 35: Number of new physical and mental injury weekly payment claims



Source: VAGO, based on WorkSafe Victoria.

In the last 12 months, the number of physical injury weekly payment claims increased by only 0.1 per cent and the number of mental injury weekly payment claims decreased by 16.9 per cent compared with 2023–24. From 2016–17 to 2023–24, the average annual growth rates for these claims were 3.7 per cent for physical injuries and 11.2 per cent for mental injuries.

Risks to achieving reform outcomes remain

Financial sustainability is key to achieving WorkSafe Victoria's purpose of reducing workplace harm and improving outcomes for injured workers.

However, it will take several years to fully understand the reforms' impact on both injured workers and the scheme's financial position due to the inherent uncertainty and long development period of insurance claims. Legal interpretations of the reforms and behavioural changes by workers and their advisers may also affect how the reforms are applied in practice.

There remains a risk that the reforms may not fully achieve the intended benefits to support WorkSafe Victoria's long-term financial sustainability. Therefore, it is important that the government continues to monitor and evaluate the outcomes of these reforms over time.

In this respect, we note that the *Workplace Injury Rehabilitation and Compensation Amendment (WorkCover Scheme Modernisation) Act 2024* requires an expert panel to conduct a review of the reforms and their impact in 2027.

Potential challenges to achieving the 2035 unfunded superannuation funding target

What is the state's superannuation liability?

The state's public-sector-defined benefit superannuation plans are responsible for the liability for employee superannuation entitlements. These plans are not reported in the AFR because they are not controlled by the state.

The superannuation plans, which are principally operated for GGS employees, are not fully funded. The funding of these superannuation liabilities is the responsibility of the state and therefore a liability is recognised in the AFR for these obligations.

The state's liabilities include a superannuation liability of \$18.3 billion at 30 June 2025.

In accordance with the requirements of AASB 119 *Employee Benefits*, this liability is valued using a discount rate based on Australian Government bond yields. However, the state's funding requirement is determined using the expected return on the superannuation fund's assets. On this basis, the state's actuarial service provider has estimated an unfunded superannuation liability lower than what is reported in the AFR, at \$13.0 billion as at 30 June 2025.

The unfunded superannuation liability for funding purposes is lower than the superannuation liability reported in the AFR because the expected return on assets of the superannuation fund is currently greater than the Australian Government's bond yield.

The government targets to fully fund this unfunded superannuation liability by 2035 by way of annual contributions – a key financial measure of the government.

\$18.1 billion is required to fully fund the liability by 2035

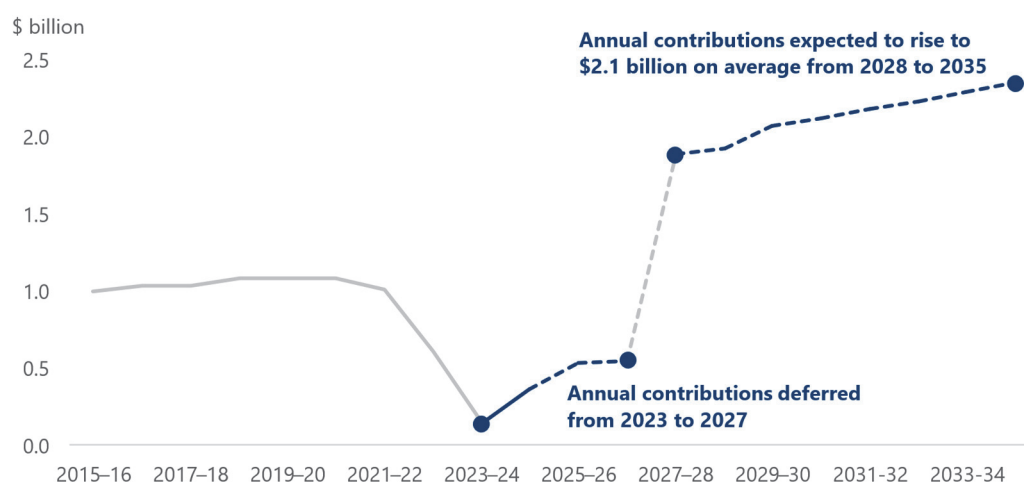
Over the last decade, the government has contributed \$8.4 billion to fund the deficit. The government deferred annual contributions by \$3.0 billion from 2023 to 2027 following the Victorian election in 2022, as outlined in *Labour's Financial Statement 2022*. The government did not explain why the contribution payments were varied and deferred. However, it keeps its commitment to fully fund the liability by 2035.

The government will need to contribute \$18.1 billion (nominal value) between 2026 and 2035, which is more than double its contributions over the last decade, to meet its full funding commitment. These estimates are based on current assumptions used to determine funding requirements.

Figure 36 shows that under its revised contribution plan, the government plans to contribute approximately \$0.5 billion per year over the next 2 years to 2027.

This means that annual contributions will need to increase to approximately \$2.1 billion from 2028 to fully fund the liability by 2035.

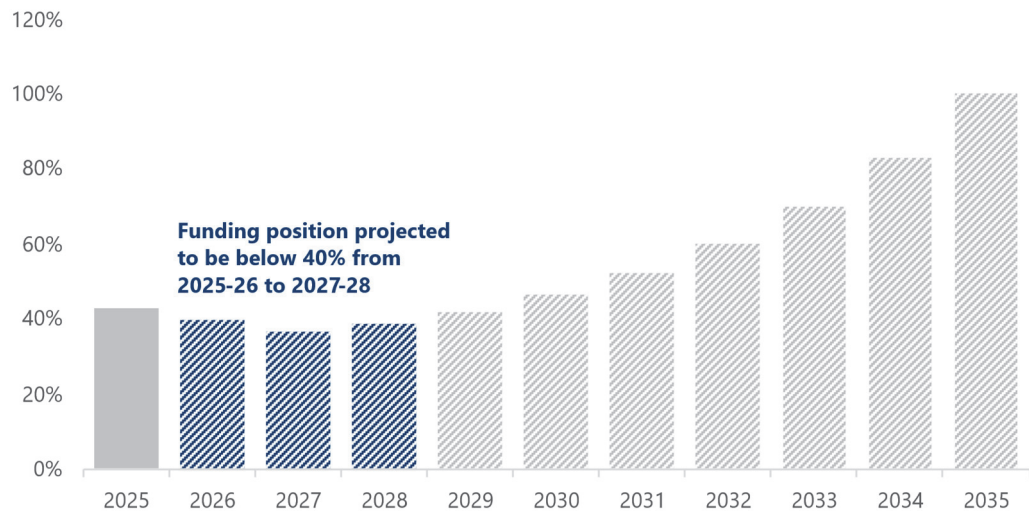
Figure 36: Actual and projected annual superannuation contributions



Source: VAGO, based on DTF.

This contribution deferral will result in the funding position falling below 40 per cent on the funding basis between 2025-26 and 2027-28 as shown in Figure 37.

Figure 37: Projected funding position of superannuation liability on funding basis



Source: VAGO, based on DTF.

The emerging risks outlined in this report increase the likelihood that the government will face challenges in making ongoing contributions and achieving its funding target.

Further, the current liability estimate is subject to external risks, such as the fund's investment performance and salary and pension increases. For example, a lower-than-expected investment return from the fund's assets would require more contributions from the government to fully fund the liability by 2035.

Nominal value

Nominal value is the value measured in terms of absolute money amount without taking inflation or other factors into account.

Funding position

Funding position shows the proportion of a superannuation fund's liability covered by the fund's assets. It is a measure of whether the fund has enough assets to pay out future benefits to its members.

4.

Proper accounts and records

Snapshot

Material entities maintain proper accounts and records and have adequate controls to prepare reliable financial reports



Agencies should place greater emphasis on the assurance obtained over outsourced service providers



VicTrack continues to improve its asset accounting and record keeping



IT deficiencies continue to be identified and the resolution of prior-year deficiencies remains slow



Conclusion

DTF implemented effective internal controls to support the preparation of a complete and accurate AFR.

VicTrack continues to make progress in resolving its asset accounting and record keeping issues.

Material entities need to place greater emphasis on the adequacy of assurance gained over outsourced service providers as required by the *Standing Directions 2018 under the Financial Management Act 1994*.

Significant weaknesses in IT system controls continue to persist across material entities, with many prior-year IT control deficiencies still unresolved. This ongoing pattern reflects weaknesses in their control environments and highlights the need for stronger management attention.

Adequate internal controls for financial reporting at material entities

Internal controls at material entities are adequate We assess the internal controls at each material entity that ensure its financial report is complete, accurate and complies with relevant legislation. We report any significant issues to the relevant entity's management and its audit committee, as required under the Australian Auditing Standards.

This year, we identified and reported 45 new issues:

- 3 were rated high
- 28 were rated moderate
- 14 were rated low.

We define these ratings in Appendix G.

The section below outlines the most significant control challenges we encountered during our audits of our material entities.

VicTrack continues to improve its asset accounting and record keeping

Continued investment in transport assets The state's investment in building, developing and replacing assets in the transport and planning sector continued. In 2024–25 DTP invested \$8.7 billion in assets (\$11.2 billion in 2023–24), with \$3.0 billion being transferred to VicTrack (\$2.7 billion in 2023–24). With respect to operational transport projects, DTP enters into the contracts, oversees the capital spending and then transfers the completed assets to VicTrack as the state's legal custodian of them.

Historical asset accounting issues

In our past reports, we have explained the significant shortcomings in asset accounting by VicTrack since 2019–20. The issues have included:

- an inability to identify individual assets in VicTrack's asset register
 - delays in the recognition of assets, which means depreciation was not charged from when assets were first available for use
 - no assessment of the nature of capital spending to make sure it could be recognised as part of an asset
 - inadequate review of work-in-progress accounting records, resulting in stale work-in-progress amounts and asset write-offs
 - asset disposals and replacements not identified and removed from the VicTrack asset register.
-

Progress continues to resolve these issues

DTP and VicTrack have devoted significant time and effort to resolve these issues. Since 2022–23, they have implemented an asset collection and attribution framework. As part of our audit work, we confirmed the effective operation of this framework for most assets added since 2019.

Their work over the last 4 financial years has ensured that any newly acquired assets are recorded completely and accurately. However, our testing this year continued to identify issues with asset register information predating 2019. Although the value of these assets has reduced considerably, further work is needed to appropriately support all assets in the asset register. As at 30 June 2025, assets without proper identifying attributes total \$1.15 billion, which is a significant reduction from \$9.07 billion in 2023–24.

We would normally qualify a financial report for this matter. However, an additional qualification on this issue was not required because we already modified VicTrack's financial report for not complying with the leasing matter explained in Section 2. We also referenced this matter within that qualification. This did not impact our opinion on the AFR because we concluded that the risk of a material misstatement in the AFR was low. We encourage VicTrack to continue this progress, with the next steps identifying clearly which assets are leased to DTP within the asset register.

Assets' fair value estimation has improved

In the public sector, the cost approach is commonly applied to determine the fair value of specialised assets, such as the transport assets held by VicTrack. This method estimates the cost to replace an asset's service potential with a modern equivalent asset. This provides entities with a clear view of the current cost to replace the public service potential of such assets.

From a financial perspective, fair value measurement supports transparent and accurate financial reporting, enhances asset lifecycle costing and informs budgeting and long-term financial planning. Regular revaluations also strengthen asset management by improving understanding of asset condition and capacity, helping entities identify underperforming assets, make renewal or upgrade or disposal decisions, and align asset plans with current and future service needs.

This year, VicTrack completed a fair valuation of its non-financial physical assets in accordance with FRD 103 *Non-financial physical assets*. The revaluation aligned with the first-time application of amendments to AASB 13 *Fair Value Measurement*, which introduced authoritative guidance for not-for-profit public sector entities. The updated guidance clarified how to apply the cost approach, allowing additional costs, such as demolition, disruption and restoration, to be included in fair value estimates because they affect the cost of replacing an asset with a modern equivalent.

The valuation resulted in a \$38.3 billion increase in fair value, bringing VicTrack's total non-current physical assets to \$88 billion. This included:

- \$34.9 billion for transport infrastructure assets
- \$1.2 billion for land
- \$2.2 billion for rolling stock.

The valuation outcomes were positively influenced by the progress VicTrack and DTP have made in improving asset data quality within VicTrack's fixed asset register and refining project costings to ensure accurate datasets. These improvements enabled more precise valuations.

Stronger market conditions and inflationary pressures, particularly in construction, also contributed to higher values, as did the inclusion of additional costs under the amended AASB 13 guidance.

Assurance practices over outsourced and shared services need improvement

Outsourced and shared services arrangements Government entities often outsource services that affect financial management, financial processes and financial reporting, such as payroll, IT, collection of fees and income and financial report preparation.

These services are outsourced to private or public providers through formal service level agreements (SLAs), which should clearly define key performance indicators, measures and assurance requirements. The aim is to reduce costs, improve service quality and access specialised expertise.

Examples of outsourced and shared service arrangements currently in place include:

- shared corporate service arrangements between the Department of Government Services, DTF and the Department of Premier and Cabinet
 - DTP outsourcing human resources and payroll services to the Department of Government Services
 - DJCS outsourcing its operation of camera technology, IT systems and processes used to detect, record and verify data for distracted driver and seatbelt traffic offences to a service provider.
-

Standing direction requirements

Under the *Standing Directions 2018 under the Financial Management Act 1994*, specifically Standing Direction 3.4 – Internal control system and Instruction 10 – Managing shared services and outsourcing arrangements, entities must:

- assess costs and benefits before outsourcing
- document services, performance indicators and measures in the SLA
- regularly monitor provider performance, including an annual review by the accountable officer, and report to those charged with governance
- obtain and document annual assurance over the provider's control environment
- ensure arrangements are subject to internal and external audit scrutiny, as appropriate.

Despite outsourcing, the accountable officer of an entity remains responsible for the function.

What we observed

We continued to observe that some material entities do not fully consider how they will obtain assurance over the service provider's control environment at the outset of outsourcing arrangements, or design appropriate mechanisms to do so.

As a result, SLAs lack clearly defined assurance requirements, leaving entities without the level of assurance required for effective oversight of the shared service providers. In these circumstances, it can take entities several years to establish appropriate assurance over the outsourced services.

Without clear oversight, entities face governance, financial and service delivery risks. Ongoing monitoring is essential to ensure providers meet agreed outcomes, maintain effective internal controls and support transparency, financial integrity and service quality.

The *Guidance supporting the Standing Directions 2018 under the Financial Management Act 1994* explains how entities can gain assurance that:

- the provider meets agreed terms and performance measures
 - controls are effective and support accurate reporting
 - the control environment ensures complete and accurate processing of transactions and data
 - the accountable officer and chief finance officer can confidently attest that financial reports are fair, and that risk management and internal controls are sound and operating effectively.
-

What is appropriate assurance?

Appropriate assurance comes in many forms, the most reliable being an ASAE 3402 *Assurance Reports on Controls at a Service Organisation* report. An independent auditor provides this type of assurance report.

Customer departments, entities and their independent auditors can place reliance on such independent assurance reports to gain confidence that the controls at the service providers are appropriately designed, implemented and operating effectively.

Recommendation We recommend that departments and agencies should:

- consider the requirements relating to Standing Direction 3.4 – Internal control system and Instruction 10 – Managing shared services and outsourcing arrangements when entering into such arrangements and outline those requirements clearly in the service level agreements
 - obtain an appropriate level of assurance annually as required by the *Standing Directions 2018 under the Financial Management Act 1994* over the outsourced service providers and shared services and document it.
-

Challenges in applying key management personnel and related party disclosures impacting transparent reporting

Key management personnel and related party disclosure requirements

Public sector entities must disclose key management personnel in their financial reports. This typically includes ministers, secretaries, chief executive officers, and senior executives – individuals who have authority and responsibility for planning, directing and controlling the activities of the entity, either directly or indirectly.

These disclosures are governed by AASB 124 *Related Party Disclosures*, FRD 21 *Disclosures of responsible persons and executive officers* and supported by guidance from DTF.

Entities must report the remuneration and benefits received by key management personnel and disclose relevant material related party relationships and transactions. These disclosures highlight any potential impact on the entity's financial position and performance, including outstanding balances and commitments with related parties. They also promote transparency in the management of public resources and help stakeholders assess whether decisions may have been influenced by personal or related party interests.

To support consistent application, DTF provides extensive guidance for meeting the requirements of the standards.

What we found During our audit of these disclosures at material entities we identified some common issues.

Some entities applied the key management personnel definition too narrowly and failed to identify individuals who met the criteria, resulting in omissions from the disclosures.

We also found that some entities did not consistently apply the definition of related parties in line with DTF guidance. These issues led to incomplete or inconsistent disclosures.

Recommendation We recommend that material entities strengthen transparency by delivering targeted training and practical guidance to staff responsible for preparing key management personnel and related party disclosures.

IT deficiencies continue to be identified and the resolution of prior-year deficiencies remains slow

Why IT controls are important IT is integral to the operations and success of an organisation.

IT systems support critical business processes, store sensitive data and are essential for effective operations of any organisation. Effective IT controls reduce the risk of unauthorised access and changes to systems and help protect the integrity of data.

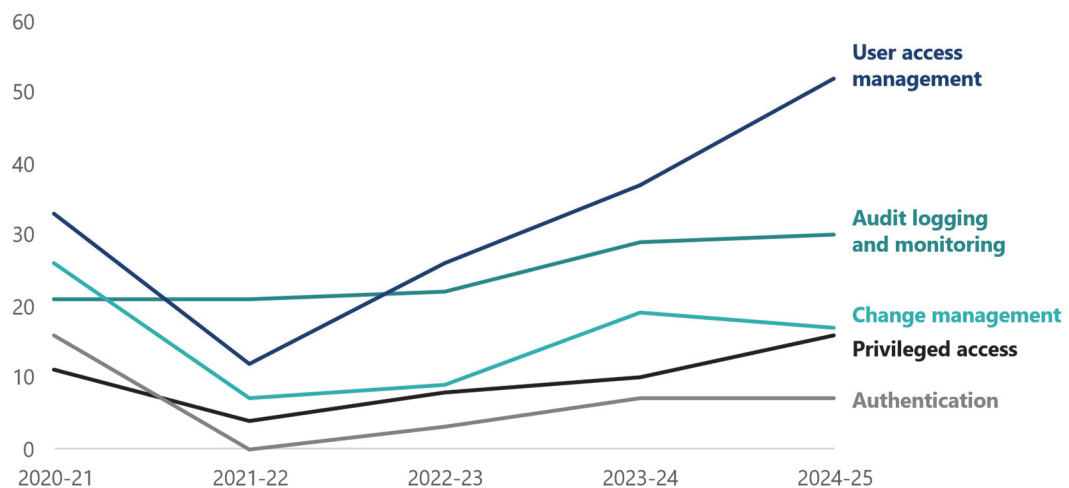
They are a prerequisite for the reliability of the systems used by the entities for financial reporting.

IT control deficiencies continue to rise

We continue to identify IT control deficiencies at many material entities. As illustrated in Figure 38, there has been a notable increase in deficiencies identified from 2021–22 to 2024–25, mainly on user access management.

Some of the increase over the last 5 years can be attributed to an expansion in the systems included in our audit testing. Growing reliance on technology coupled with evolving auditing standard requirements have led to the increase in in-scope systems for our audits. For user access management, factors such as staff turnover and complexity in user access roles and responsibilities also contributed to the increase in deficiencies.

Figure 38: New and unresolved IT control deficiencies



Source: VAGO.

Common IT control deficiencies identified at the relevant material entities were:

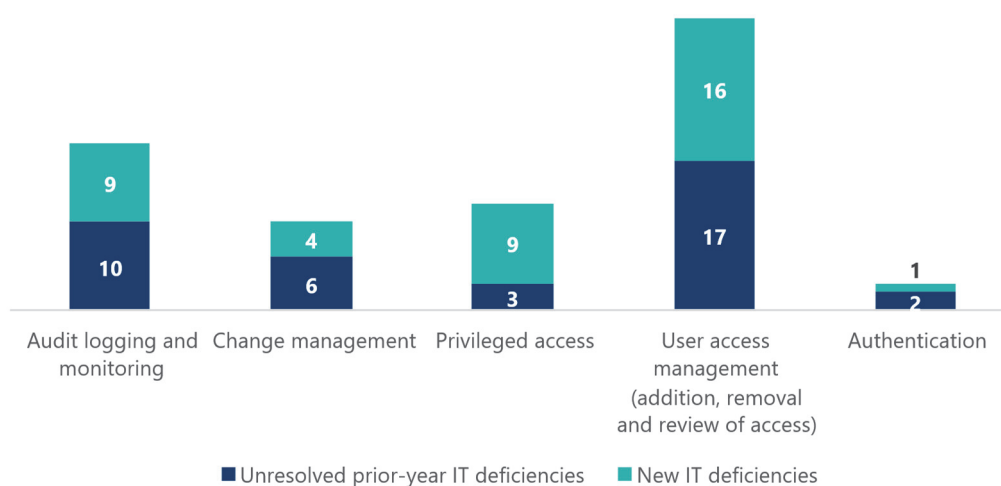
IT control deficiencies include ...	meaning ...	This may result in ...
audit logging and monitoring	system-generated audit logs were not always enabled to track critical and sensitive activities, including but not limited to changes to system user access, configurations, reports and master data. Where audit logging is enabled, we observed numerous instances where there is no active monitoring of these logs.	unauthorised or suspicious activities can go unnoticed or undetected that may impact the integrity of financial reports.
change management	ineffective change tracking, lack of proper change approval processes, inadequate testing before deployment and inadequate segregation of duties were identified.	unauthorised or improper changes made to critical systems or data, which may result in system outages, data corruption and errors in financial reports.
privileged access	employees assigned with only the minimum access necessary to do their job – is not consistently applied within and by material entities. We observed instances where employees were assigned system access well beyond what they require to complete their day-to-day tasks.	users with such access could misuse their accounts to gain access to sensitive systems and data.
user access management	inadequate user access reviews, failure to implement role-based access control, inconsistent or delayed termination of system access and granting of access without proper request or approval were identified.	poor management of user accounts can give individuals more access than needed, increasing the risk of accidental or intentional misuse of systems and data.
authentication	weak password policies and password settings in the system as well as a lack of multi-factor authentication for some material entities are driving authentication issues.	weak authentication mechanisms make it easier for attackers to compromise user accounts by methods, such as the guessing of passwords or tricking users into sharing such credentials with them.

Resolution of prior-year IT control deficiencies remains slow

Thirty-eight prior-year IT control deficiencies remained unresolved across many material entities. This pattern reflects ongoing weaknesses in their control environments and highlights the need for stronger management attention.

Figure 39 shows a total of 77 new and unresolved prior-year IT control deficiencies.

Figure 39: New and prior-year IT control deficiencies in 2024–25



Source: VAGO.

Root causes of prolonged and rising IT control deficiencies

IT control deficiencies continue to occur and remain open for a prolonged period because of:

- competing priorities, funding constraints and staff turnover
- limitations of systems
- legacy applications making it difficult to put in place controls addressing new risks from program changes, access issues and cyber threats
- limited awareness by management of the risks and potential effects these deficiencies could have on operations
- untimely detection or remediation and limited oversight.

We have made several recommendations to relevant material entities to address these deficiencies through our reporting to management and those charged with governance.

5.

Appendices

[Appendix A: Submissions and comments](#)

[Appendix B: Our audit approach](#)

[Appendix C: Audit report on the AFR](#)

[Appendix D: Results of material entity audits](#)

[Appendix E: Financial measures and targets](#)

[Appendix F: Acronyms and glossary](#)

[Appendix G: Internal control and financial reporting issues risk ratings](#)

Appendix A:

Submissions and comments

We have consulted with agencies named in this report, and we considered their views when reaching our audit conclusions. As required by the *Audit Act 1994*, we gave a draft copy of this report, or relevant extracts, to those agencies and asked for their submissions and comments.

Responsibility for the accuracy, fairness and balance of those comments rests solely with the relevant agency head.

Responses received

Agency	Page
Treasurer of Victoria	A-2
Department of Energy, Environment and Climate Action	A-5
Department of Government Services	A-6
Department of Jobs, Skills, Industry and Regions	A-7
Department of Transport and Planning	A-8
VicTrack	A-10
Victorian Managed Insurance Authority	A-11
WorkSafe Victoria	A-12



Treasurer of Victoria

Minister for Industrial Relations
Minister for Economic Growth

1 Treasury Place
GPO Box 4379
Melbourne Victoria 3001
Telephone: +61 3 7005 9474

Mr Andrew Greaves
Auditor-General
Victorian Auditor-General's Office (VAGO)

Dear Mr Greaves,

RESPONSE TO THE AUDITOR-GENERAL'S REPORT ON THE ANNUAL FINANCIAL REPORT OF THE STATE OF VICTORIA, 2024-25

Thank you for your letter dated 3 November 2025, seeking my response to your report on the Annual Financial Report (AFR) of the State of Victoria 2024-25 (the report) before its finalisation and transmission to Parliament.

The report confirms the issuance of a clear audit opinion on the financial statements of the State of Victoria and the General Government Sector (GGS) for the financial year ended 30 June 2025. This provides reasonable assurance that the financial performance and position of the State of Victoria and the GGS as presented in the AFR is reliable and can be depended upon by Parliament and the Victorian community, to inform their understanding of the State's finances, and to inform decision-making.

As noted in the report, in response to the COVID-19 pandemic, the Government put in place a comprehensive fiscal strategy to protect Victorian households and businesses and provide a strong foundation for recovery:

- Step 1: Creating jobs, reducing unemployment and restoring economic growth.
- Step 2: Returning to an operating cash surplus.
- Step 3: Returning to operating surpluses.
- Step 4: Stabilising debt levels.
- Step 5: Reducing net debt as a proportion of the Gross State Product (GSP) by the end of the forward estimate period.

This is a carefully balanced approach, designed to navigate the economic challenges facing the state. As the report points out, two major factors have contributed to government debt over this period:

- COVID-19-related expenditure, which supported the Victorian community and its economy, through necessary investments in the health system, support for households, and direct business support which enabled them to survive; and
- Investment in the productive infrastructure that a growing city and state needs. Victoria's Big Build is unlocking Melbourne through the removal of 110 dangerous and congested level crossings, boosting public transport services through the Regional Rail Revival and the soon-to-open Metro Tunnel, and



making it easier for people and goods to move around our state thanks to the West Gate Tunnel and numerous other road and infrastructure upgrades.

Importantly, the Government's investments in pandemic response measures and productivity enhancing infrastructure helped the Victorian economy successfully navigate the pandemic and the subsequent period of high inflation, elevated interest rates and heightened geopolitical risks. As a result, Victoria has experienced favourable labour market performance and economic growth compared with many advanced economies over this period, thereby delivering on Step 1 of the fiscal strategy.

The Government has since reported significant progress towards delivering on the remaining steps of the fiscal strategy. For three consecutive years beginning in 2022-23, the Government has delivered an operating cash surplus – Step 2 of the strategy. Step 3, an operating surplus, will be delivered in 2025-26. The Government remains on track to deliver steps 4 and 5 over the forward estimates.

The recent releases of the 2025-26 Budget and the 2024-25 Annual Financial Report confirm that this strategy is working as intended, with the economy performing well and the labour market remaining healthy.

The Report notes the continuing impacts on the State's finances of challenging local and international economic conditions and acknowledges the Government has continued its focus on the above strategy, including progressing various initiatives designed to improve the State's financial condition and position.

The Government remains committed to the long-term financial management objectives set out in the State Budget and continues to consider new opportunities that arise to support the Victorian community in these challenging times.

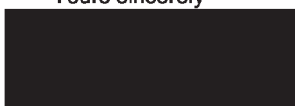
Additionally, the report makes a number of recommendations to the Department of Treasury and Finance (DTF), the responses of which are outlined in the table below:

Recommendation	Response
DTF work with the government to regularly publish updates on its progress against the COVID Debt Repayment Plan.	Noted The COVID Debt Repayment Plan was announced in the 2023-24 Budget. It was expected to take around ten years to offset the pandemic's adverse effects on the State's finances. As the Report notes, two years on, the State remains on track to achieve this objective.
Material entities responsible for administering trust accounts assess whether the current spending patterns are effectively achieving the purposes for which these funds were established.	Agreed DTF continually monitors the balance in the Community Support Fund and provides advice to the Treasurer and the government on available funding in the trust fund to assist in resource allocation decisions, in line with the objectives of the trust fund.



- Material entities should: - Consider the requirements relating to Standing Direction 3.4 – Internal Control System, Instruction 10 – Managing Shared Services and Outsourcing Arrangements when entering into such arrangements and outline those requirements clearly in the service level agreements - Obtain appropriate level of assurance annually as required by the Standing Directions under the FMA over the outsourced service providers and shared services and document.	Agreed DTF agrees with the imperative of departmental/entity compliance with the Financial Management Act (FMA) Standing Directions, including the Direction referenced in this recommendation. In the case of DTF, several corporate functions were transferred from DTF to DGS as part of the machinery of government changes on 1 January 2023, with those functions now provided to DTF by DGS on an outsourced basis. DTF will continue working with DGS on future delivery agreements and related assurance arrangements in compliance with Standing Directions.
Material entities strengthen transparency by delivering targeted training and practical guidance to staff responsible for preparing key management personnel and related party disclosures.	Noted DTF notes that the audit observations in the report related to this recommendation positively reference the extensive guidance provided by DTF to assist entity compliance. DTF will consider the need for, and value of, any further targeted training or practical guidance to staff responsible for preparing the related disclosures in line with DTF guidance.

Yours sincerely



Jaclyn Symes MP
Treasurer
Date: 18/11/2025



Department of Energy, Environment
and Climate Action

PO Box 500, East Melbourne,
Victoria 8002 Australia

SEC-251100030

Mr Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
Level 31, 35 Collins Street
Melbourne Victoria 3000

Via email: [REDACTED]

Dear Mr Greaves

Thank you for your letter of 3 November 2025 regarding your Office's proposed *Report on the Annual Financial Report of the State of Victoria: 2024-25* (Report), and the invitation to provide a formal response.

I note that your proposed Report references the Department of Energy, Environment and Climate Action's (DEECA) administration of the Sustainability Trust Fund.

The department incurs expenditure from the Sustainability Trust Fund in accordance with the *Environment Protection Act 2017* and subject to the approval of the Victorian government. This is demonstrated by the Fund's spending proposals being considered by the government each year as part of the annual budget process. Once budgeted spending has been approved by government, Section 4.3 of the *Resource Management Framework* states that departments cannot materially increase budgeted expenditure from a trust account without prior approval from the relevant Cabinet committee or the Treasurer.

While DEECA acknowledges the reported increase in the cash balances held, new spending proposals for the Sustainability Fund are developed by the department for government consideration each year as part of the budget process; and assessing whether current spending patterns are effectively achieving the purpose of the Fund (as recommended in the Report) is a matter for government in setting its budget priorities through the annual State Budget.

Thank you again for the opportunity to comment on your Report.

Yours sincerely

[REDACTED]

Kate Houghton
Secretary

CC: [REDACTED]



Official - Sensitive



Department of Government Services

Level 5
1 Macarthur Street
East Melbourne Victoria 3002
Telephone: (03) 9651 5111

Our ref: BSEC-251100128

Mr Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
Level 31, 35 Collins Street
MELBOURNE VIC 3000

By email: [REDACTED]

Dear Auditor-General

VAGO PROPOSED REPORT: AUDITOR-GENERAL'S REPORT ON THE ANNUAL FINANCIAL REPORT OF THE STATE OF VICTORIA: 2024-25

Thank you for your letter dated 3 November 2025 enclosing an extract of the proposed report Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2024-25.

The Department of Government Services (DGS) acknowledges the report's recommendation for agencies to obtain appropriate level of assurance annually as required by the Standing Directions over the outsourced service providers and shared services and documents.

My department provides a range of outsourced services to other departments across government and provides assurances through an annual Corporate Assurance Report. For 2025-26, DGS will further uplift its annual assurance activity by engaging independent auditors to commence a rolling program of independent assurance activities to DGS customers for its outsourced services.

DGS also receives a range of outsourced services and will continue to obtain appropriate assurances from these third-party service providers.

If your office requires further information, please contact Steven Wlazly, Chief Finance Officer, DGS at [REDACTED]

Yours sincerely

Jo de Morton
Secretary

18/11/2025

Your details will be dealt with in accordance with the *Public Records Act 1973* and the *Privacy and Data Protection Act 2014*. Should you have any queries or wish to gain access to your personal information held by this department please contact our Privacy Officer at the above address.



OFFICIAL: Sensitive

OFFICIAL



Department of Jobs, Skills, Industry and Regions

GPO Box 4509
Melbourne, Victoria 3001 Australia
Telephone: +61 3 9651 9999

Ref: CSEC-2-25-27453

Mr Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
Level 31, 35 Collins Street
MELBOURNE VICTORIA 3000

Dear Mr Greaves

**AUDITOR-GENERAL'S REPORT ON THE ANNUAL FINANCIAL REPORT OF THE
STATE OF VICTORIA 2024-25**

Thank you for your letter of 3 November 2025 inviting the Department of Jobs, Skills, Industry and Regions (the department) to provide a response to the Auditor-General's Report on the 2024-25 Annual Financial Report of the State of Victoria (the report).

The department notes VAGO's assessment that the 2022-23 report recommendation into the evaluation of the Business Costs Assistance Program and Licensed Hospitality Venue Fund grants programs has been implemented and acknowledges the associated commentary.

Thank you for the opportunity to comment on the report.

Yours sincerely



Matt Carrick
Secretary

18/11/2025





Department of Transport and Planning

GPO Box 2392
Melbourne, Victoria 3001 Australia

Ref: BSEC-1-25-5135

Mr Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
Level 31/ 35 Collins Street
MELBOURNE VIC 3000
E: [REDACTED]

Dear Mr Greaves

DTP Response to Proposed Auditor-General's Report on the 2024-25 Annual Financial Report of the State of Victoria

Thank you for your letter dated 3 November 2025, inviting the Department of Transport and Planning (DTP) to provide a submission to the proposed *Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2024-25*.

The Department of Transport and Planning is appreciative of the opportunity to contribute to the VAGO consultation process. Please find below the formal submission from DTP in response to this invitation.

VicTrack lease arrangement accounting

VicTrack and DTP have assessed and accounted for the arrangement in accordance with current Australian Accounting Standards. DTP's election to apply the fair value measurement relief for its concessionary leases with VicTrack is a valid option permitted under the standards. The appropriateness of this accounting treatment at the General Government Sector level is a matter for the Department of Treasury and Finance.

Growing Trust Fund balance

DTP continually monitors the balance in the Growth Area Infrastructure Fund and advises the Department of Treasury and Finance, and the Minister for Planning on available funding. This informs resource allocation decisions that align with the objectives of the trust fund.

Upcoming accounting changes

DTP notes that the Australian Accounting Standard Board (AASB) has not yet concluded on this matter. While the relief may be removed, it is equally possible that the cost measurement relief will be made permanent. DTP will assess the accounting impact should the AASB's Post Implementation Review remove the cost measurement relief.

Shared service assurance

DTP is aware of its assurance requirements for outsourced services under the Standing Directions and is working with the Department of Government Services (DGS) on a resolution. In the absence of a DGS ASAE 3402 assurance report, DTP has leveraged its internal processes to provide assurance over the financial information presented in the financial statements.



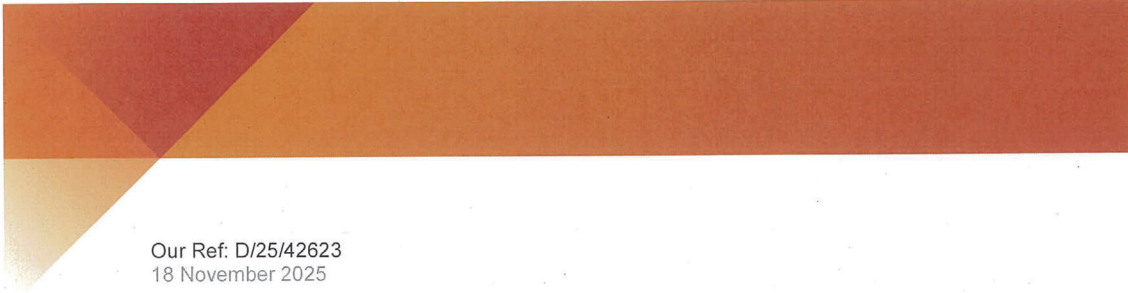
Should you require any further information, please contact Effie Doumis, Acting Chief Financial Officer at [REDACTED]

Yours sincerely

[REDACTED]

Jeroen Weimar
Secretary

Date: 14 November 2025



Our Ref: D/25/42623
18 November 2025

Janaka Kumara
Director - Financial Audit
VAGO
Level 31/35 Collins Street
Melbourne VIC
3000

Dear Mr Kumara,

Re: Auditor-General's Report on the 2024-25 Annual Financial Report of the State of Victoria.

Thank you for the opportunity for Victorian Rail Track (VicTrack) to provide comments to the Auditor-General's Report on the 2024-25 Annual Financial Report of the State of Victoria.

VicTrack continues to have a difference of opinion with the Victorian Auditor General's Office (VAGO) on the classification of its operating leases, which resulted in the adverse qualification first issued in 2019-20 for VicTrack and its consolidated entities.

VicTrack's position as lessor in relation to these leases has been informed by expert accounting and legal advice. Following further such advice relating to the MR5 Trams franchise arrangement executed in November 2024, the Consolidated Entity's view is that existing leasing arrangements remain substantially unchanged from a lessor perspective.

Further, VicTrack's position remains consistent with the Department of Transport and Planning's current policy in relation to the management of rail operations and associated leases.

As such, VicTrack and its consolidated entities continue to classify the lease arrangements as operating leases in the 2024-25 Financial Statements, consistent with the approach taken in previous years.

Yours sincerely



Jonathan Metcalfe
Interim Chief Executive

VicTrack
Level 8, 1010 La Trobe St Docklands VIC 3008
GPO Box 1681 Melbourne VIC 3001
T 1300 VICTRACK (1300 842 872)
victrack.com.au

VicTrack

OFFICIAL



18 November 2025

Andrew Greaves
Auditor-General
Victorian Auditor-General's Office

By email: [REDACTED]

Dear Mr Greaves

Re: Proposed report "Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2024–25"

Thank you for the opportunity to review and comment on the extract of the proposed report "Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2024–25". VMIA notes our teams have been engaged in discussion on data interpretations and representations to improve readability.

We also note that the extract discusses the claims experience of the Domestic Building Insurance (DBI) scheme over the past 10 years, the impact of that upon the financial performance of the DBI portfolio, and the subsequent transactions supporting the establishment of the Building and Plumbing Commission (BPC).

We believe that this discussion is missing the important context that we increased premiums in response to the deteriorating claims experience, with the intent that we would return the DBI portfolio to financial break-even status by 2029. Your previous report, "Domestic Building Insurance - May 2025", provided this context.

VMIA believes that these premium increases significantly reduced the financial risk of the DBI portfolio prior to BPC's establishment.

Yours sincerely

[REDACTED]

Andrew Davies
Chief Executive Officer

CC: [REDACTED]

VMIA is the Victorian
Government's insurer
and risk adviser

Level 10 South
161 Collins Street
Melbourne VIC 3000

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ABN 39 682 497 841

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Insurance Authority



Victorian Managed Insurance Authority (VMIA) acknowledges the Traditional Custodians of the land on which we do business, and we pay our respects to Elders past and present. We acknowledge the important contribution that Aboriginal and Torres Strait Islander peoples make in creating a thriving Victoria.

OFFICIAL



**Reducing
workplace
harm.**

**Improving
outcomes for
injured workers.**

WorkSafe Ref: CEO25-3227

13 November 2025

Mr Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
Level 31, 35 Collins Street
MELBOURNE VIC 3000

By email via: [REDACTED]

Dear Mr Greaves

Thank you for your email of 3 November 2025 with the extract of the proposed report *Auditor-General's Report on the Annual Financial Report of the State of Victoria 2024-25*.

WorkSafe Victoria reviewed the Report and sought to independently re-calculate the financial conclusions. We found the results to be materially and directionally correct. We do not dispute the findings presented or have any further feedback.

Should you wish to discuss this matter further, please contact Mario Briffa, General Counsel and Executive Director, Legal & Governance at WorkSafe on [REDACTED] or via email at [REDACTED]

Thank you again for providing WorkSafe with a copy of the extract to the report for review.

Yours sincerely

A black rectangular redaction box covering the signature of Ashley West.

Ashley West
Chief Executive Officer
WorkSafe Victoria

CEO25-XXX

Page 1

Appendix B:

Our audit approach

Our financial audits

We conduct our financial audits in accordance with the *Audit Act 1994* and the Australian Auditing Standards.

For each financial report, we evaluate the ...	and design and perform audit procedures that ...	and form an opinion ...
risks of material misstatement – whether due to fraud or error	respond to these material risks	based on audit evidence that is sufficient and appropriate.
internal controls relevant to the audit	are appropriate in the circumstances	on the appropriateness of using the going-concern basis of accounting.
• appropriateness of accounting policies used and the reasonableness of accounting estimates and disclosures • overall presentation, structure and content of the financial report		on whether the report fairly represents the underlying transactions and events.

Our audit of the AFR

As part of our audit of the AFR, we also obtain:

- evidence about the completeness and accuracy of the financial information of the 30 material entities within the AFR
- an understanding of the consolidation process and evaluate the appropriateness, completeness and accuracy of consolidation adjustments, such as intra-agency and intra-sector eliminations.

Our independence

The Auditor-General is:

- an independent officer of the Parliament of Victoria
- appointed under legislation to examine, on behalf of Parliament and taxpayers, how the public sector manages resources
- not subject to control or direction of either Parliament or the government.

Our ethical obligations

The Auditor-General and VAGO must meet the ethical requirements of the:

- Australian Auditing Standards
- Accounting Professional and Ethical Standards Board’s APES 110 *Code of Ethics for Professional Accountants*
- *Code of Conduct for Victorian Public Sector Employees of Special Bodies*
- *Public Administration Act 2004*
- *Standing Directions 2018 under the Financial Management Act 1994*, which provides policies on accepting and provisioning gifts, benefits and hospitality.

Our costs

The cost of ...	was ...	which is funded by ...
our audit of the AFR	\$445,000	DTF.
our audits of the 30 material entities	approximately \$10.3 million	audited agencies.
preparing this report and its supporting dashboard	\$420,000	parliamentary appropriation.

We do not provide any non-assurance services to our clients.

Appendix C:

Audit report on the AFR



Independent Auditor's Report

To the Treasurer of the State of Victoria

Opinion	I have audited the consolidated financial report of the State of Victoria (State) and the Victorian General Government Sector (General Government Sector), which comprises the: - consolidated State and General Government Sector balance sheets as at 30 June 2025 - consolidated State and General Government Sector comprehensive operating statements for the year then ended - consolidated State and General Government Sector statements of changes in equity for the year then ended - consolidated State and General Government Sector cash flow statements for the year then ended - notes to the consolidated financial statements, including material accounting policy information - certification by the Treasurer and the Secretary of the Department of Treasury and Finance. In my opinion, the consolidated financial report presents fairly, in all material respects, the financial positions of the State and the General Government Sector as at 30 June 2025 and their financial performance and cash flows for the year then ended in accordance with the financial reporting requirements of Section 24 of the <i>Financial Management Act 1994</i> and applicable Australian Accounting Standards.
Basis for opinion	I have conducted my audit in accordance with the <i>Audit Act 1994</i>, which incorporates the Australian Auditing Standards. I further describe my responsibilities under that Act and those standards in the <i>Auditor's responsibilities for the audit of the consolidated financial report</i> section of my report. My independence is established by the <i>Constitution Act 1975</i>. My staff and I are independent of the State and the General Government Sector in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's <i>APES 110 Code of Ethics for Professional Accountants (including Independence Standards)</i> (the Code) that are relevant to my audit of the consolidated financial report in Victoria. My staff and I have also fulfilled our other ethical responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.
Key audit matters	Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the consolidated financial report of the current period. These matters were addressed in the context of my audit of the consolidated financial report as a whole and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

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Key audit matter	How I addressed the matter
Recognition of transport assets <i>Refer to Note 4.1 Land, buildings, infrastructure, plant and equipment</i>	
The State continues to invest heavily in transport infrastructure, adding materially to its asset base each year. As at 30 June, it reported \$76.9 billion in construction in progress, up from \$65.3 billion in 2024. Most of this increase relates to transport assets. The State is responsible for maintaining proper accounts and records that clearly explain the financial impact of these assets on its financial performance and financial position. I considered the recognition of transport assets to be a key audit matter because: • transport assets under construction are financially significant • transport asset capital projects are complex and typically result in a broad range of asset types being constructed • a significant degree of judgement is required by management to: ○ identify individual assets within each project ○ determine which expenses should be capitalised ○ allocate capital costs to individual assets • multiple agencies are involved in managing and delivering the transport projects, which complicates timely recognition and derecognition of assets • Victorian Rail Track (VicTrack) is the custodial owner of a large portion of the State's transport assets. Historically, VicTrack faced challenges in asset accounting. Management has made progress in resolving these issues and continues to address remaining matters.	My key procedures included: • assessing management's process to identify individual assets within a project, and the costs directly attributable to those assets • assessing the results of the work undertaken by management to review construction in progress balances and completed projects capitalised • evaluating management's assessment of the existence of assets, and the completeness and accuracy of asset records • evaluating the accounting treatment for asset additions, disposals and replacements against the requirements of Australian Accounting Standards • assessing the resolution of asset accounting issues at VicTrack • assessing the completeness and adequacy of the financial report disclosures against the requirements of Australian Accounting Standards.

Key audit matter	How I addressed the matter
Valuation of non-financial physical transport assets <i>Refer to Note 4.1 Land, buildings, infrastructure, plant and equipment and Note 6.5 Fair value determination of non-financial assets</i>	
Financial Reporting Direction 103 <i>Non-financial physical assets</i> required transport sector agencies to undertake a full revaluation of their non-financial physical assets as at 30 June 2025. This year, the State reported growth in its non-financial physical asset base, including: • fair value of non-financial physical assets (excluding construction in progress) of \$424.8 billion, up from \$371.4 billion in 2024 • an increase of \$48.4 billion in the physical asset revaluation surplus. The majority of the non-financial physical assets comprise transport assets. I considered the valuation of non-financial physical transport assets to be a key audit matter because: • transport assets and their fair value estimates are financially significant • this year marked the first-time application of amendments to AASB 13 <i>Fair Value Measurement</i>, for valuation of transport assets which affected the current replacement cost approach used to determine fair value and requires significant judgement by both management and the valuer • the fair value estimates are derived from a current replacement cost valuation model, which is inherently complex and involves significant judgements and assumptions • management engaged an external valuation expert to assist with the fair value estimate • AASB 13 requires extensive financial report disclosures, which are critical to users' understanding of the valuation basis and assumptions applied.	My key procedures included: • obtaining an understanding of the approach to estimating the fair value of non-financial physical assets • evaluating management's assessment of the impact of the AASB 13 amendments, and the reasonableness of changes to valuation approaches • assessing the competence, capability and objectivity of management's expert engaged to perform the independent valuation • obtaining management's external valuation expert's reports to: ○ test the completeness and accuracy of data provided to the independent valuer ○ assess the reasonableness and consistency of data, significant unobservable inputs and key assumptions used ○ evaluate the appropriateness of the current replacement cost models used to value the non-financial physical assets ○ verify the computational accuracy of the fair value estimates. • verifying the accounting treatment of the revaluation adjustments against the applicable accounting standards • assessing the completeness and adequacy of the financial report disclosures against the requirements of Australian Accounting Standards.

Key audit matter	How I addressed the matter
Recognition and measurement of service concession assets, liabilities and commitments <i>Refer to Note 4.1 Land, buildings, infrastructure, plant and equipment, Note 4.2 Other non-financial assets, Note 5.1 Borrowings, Note 5.7 Service concession arrangements and Note 2.8 Other liabilities</i>	
Service concession assets: land, buildings, infrastructure, plant and equipment – \$53.9 billion Service concession assets: intangible produced – \$3.9 billion Service concession arrangement liabilities – \$9.0 billion Service concession arrangements commitments – \$45.6 billion (nominal value) Service concession grant of a right to the operator (GORTO) liabilities – \$20.2 billion There are three types of service concession arrangements: • arrangements where the State has contractual obligations to make payments and other contributions to the operators for the construction and operation of the assets • arrangements where the State has granted the operators the right to charge the public directly for the use of the assets • hybrid arrangements where the State has granted the operators the right to charge the public for use of assets and the State makes contractual payments and other contributions to the operator. I considered the recognition and measurement of service concession arrangements to be a key audit matter because: • service concession assets, liabilities and commitments are financially significant • the requirements of AASB 1059 <i>Service Concession Arrangements: Grantors</i> are complex, and their application requires significant management estimation and judgement • service concession arrangements and the financial models used to value the assets, liabilities and commitments are complex • a significant degree of management judgement is required to determine the key assumptions used in valuing the assets, liabilities and commitments • any new arrangements require significant management judgement in the initial application of AASB 1059 • extensive disclosures are required by Australian Accounting Standards which are critical to users' understanding of service concession assets, liabilities and commitments.	My key procedures included: • reviewing material contracts, supporting schedules, financial models and professional accounting advice received by the State, where applicable • assessing the accounting treatment against the requirements of AASB 1059, and the reasonableness of management judgements made in the application of the standard • engaging appropriately qualified independent subject matter experts to review certain valuation methodologies and financial models and assess the: ○ appropriateness of fair value methodologies ○ reasonableness and consistency of assumptions ○ reasonableness of inputs against underlying data and supporting documentation ○ accuracy of models • reviewing all other material financial models and confirming the judgements applied by management to independent expert reports • assessing the completeness and accuracy of service concession assets, liabilities and commitments against the contracts and underlying financial models for each project • comparing the reasonableness of asset amounts against actual costs incurred • assessing the adequacy of financial report disclosures against the requirements of Australian Accounting Standards.

Key audit matter	How I addressed the matter
Valuation of defined benefit superannuation liability <i>Refer to Note 3.3 Superannuation</i> Defined benefit superannuation liability – \$18.3 billion The Emergency Services and State Super funds account for \$17.4 billion (95.1 per cent) of the State’s defined benefit superannuation liability (the liability). The Emergency Services Superannuation Board (ESSB) manage these funds. I considered this to be a key audit matter because: - the liability is financially significant - the underlying model used to value the liability is complex - a significant degree of management judgement is required to determine the method, model and key assumptions used in valuing the liability - a small adjustment to an assumption may have a significant effect on the total value of the liability - ESSB has outsourced core member administration and fund accounting to an outsourced service provider. An independent assurance auditor was engaged by ESSB to report on the design, implementation and operating effectiveness of controls at the service provider - extensive disclosures are required by Australian Accounting Standards which are critical to users’ understanding of the valuation of the liability - management engaged an actuary to value the liability as at 30 April, then adjusted the value of the liability to account for actual market performance and movements in other inputs and key assumptions up to 30 June.	My key procedures included: - gaining an understanding and evaluating the design and implementation of key controls over the outsourced arrangement, and then testing their operating effectiveness, including those: - supporting the completeness and accuracy of membership data - assisting with the management and oversight of the arrangement - obtaining the independent assurance auditor’s report over the outsourced service provider’s controls and: - assessing the adequacy of the scope of work agreed between management and the assurance auditor - assessing the professional competence and independence of the assurance auditor - considering the relevance of the stated control objectives and controls covered by the assurance report - assessing the testing performed by the assurance auditor and the results of the tests - assessing the sufficiency and appropriateness of the audit evidence provided by the assurance report - assessing the professional competence and independence of management’s actuary - obtaining the actuarial report and year-end adjustments, and engaging an appropriately qualified independent actuary to assist in obtaining sufficient appropriate audit evidence for the liability and disclosures, including to: - assess the appropriateness of the model used to value the liability - review the reasonableness of membership data in the model by comparing it to the data in the service provider’s system - assess the appropriateness of management’s selection and application of the method, significant assumptions and data used to value the liability - challenge the reasonableness of key assumptions by comparing against accepted industry benchmarks - assess the reasonableness of the reported liability value - assessing the adequacy of financial report disclosures against the requirements of Australian Accounting Standards.

Key audit matter	How I addressed the matter
Valuation of provision for insurance claims <i>Refer to Note 3.7 Other provisions</i> Provision for insurance claims – \$54.3 billion Victoria’s major insurance agencies, the Victorian WorkCover Authority (WorkSafe), Transport Accident Commission (TAC) and Victorian Managed Insurance Authority (VMIA), collectively hold \$53.3 billion in provisions to cover future general insurance claims. These provisions represent the estimated future costs of claims arising from workplace injuries, transport accidents, and public sector liabilities. I considered these provisions to be a key audit matter because: - the provision for insurance claims is financially significant, representing a substantial portion of the State’s liabilities - the provision comprises several insurance claim categories across the WorkSafe, TAC and VMIA. Each category requires estimation and valuation, adding complexity to the overall provision - the underlying models used to value the provision are complex - the valuation of the provision is subject to significant management assumptions and estimation uncertainty - a small adjustment to an assumption may have a significant effect on the total value of the provision - recent WorkSafe scheme reforms under the <i>Workplace Injury Rehabilitation and Compensation Amendment (WorkCover Scheme Modernisation) Act 2024</i> (the Act) affect the assumptions and judgements made by management, which are essential for accurately valuing the provision, resulting in significant estimation uncertainty - extensive disclosures are required by Australian Accounting Standards which are critical to users’ understanding of the valuation of the provision - management of each respective agency engaged actuaries to value the provision as at 30 June.	My key procedures included: - gaining an understanding of the systems, processes and models that affect claims data and the provision valuation - testing the design, implementation and operating effectiveness of key controls supporting the underlying claims data used in the models - assessing the completeness and accuracy of the claims data used in the model by reconciling this data to underlying claims data in the insurers’ systems - assessing the professional competence and independence of management’s actuaries - obtaining management’s actuarial reports and engaging an appropriately qualified independent actuary to: - assess the appropriateness of management’s selection and application of the methods, significant assumptions including those used in applying WorkSafe scheme reforms to value the provision - assess the reasonableness of data and other inputs used in valuing the provision - evaluate the appropriateness of the models used to value the provision - challenge the reasonableness of key assumptions by comparing against claims history and accepted industry benchmarks - assess the reasonableness of the reported provision value. - assessing the adequacy of financial report disclosures against the requirements of Australian Accounting Standards.
Other information	The Treasurer of Victoria is responsible for the Other Information, which comprises the information in chapters 1–3 and 5 of the 2024–25 Financial Report but does not include the consolidated financial report in chapter 4 and my auditor’s report thereon. My opinion on the consolidated financial report does not cover the Other Information and accordingly, I do not express any form of assurance conclusion on the Other Information. However, in connection with my audit of the consolidated financial report, my responsibility is to read the Other Information and in doing so, consider whether it is materially inconsistent with the consolidated financial report or the knowledge I obtained during the audit, or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude there is a material misstatement of the Other Information, I am required to report that fact. I have nothing to report in this regard.

The Treasurer's responsibilities for the consolidated financial report	The Treasurer of Victoria is responsible for the preparation and fair presentation of the consolidated financial report in accordance with Australian Accounting Standards and the <i>Financial Management Act 1994</i>, and for such internal control as the Treasurer determines is necessary to enable the preparation of a consolidated financial report that is free from material misstatement, whether due to fraud or error. In preparing the consolidated financial report, the Treasurer is responsible for assessing the State and the General Government Sector's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is inappropriate to do so.
Auditor's responsibilities for the audit of the consolidated financial report	As required by the <i>Audit Act 1994</i>, my responsibility is to express an opinion on the consolidated financial report based on the audit. My objectives for the audit are to obtain reasonable assurance about whether the consolidated financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this consolidated financial report. As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also: • identify and assess the risks of material misstatement of the consolidated financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. • obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State and the General Government Sector's internal control. • evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Treasurer. • conclude on the appropriateness of the Treasurer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the State and the General Government Sector's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the State and the General Government Sector to cease to continue as a going concern. • evaluate the overall presentation, structure and content of the consolidated financial report, including the disclosures, and whether the consolidated financial report represents the underlying transactions and events in a manner that achieves fair presentation. • obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the State and the General Government Sector to express an opinion on the consolidated financial report. I remain responsible for the direction, supervision and performance of the audit of the consolidated financial report. I remain solely responsible for my audit opinion.

Auditor’s responsibilities for the audit of the consolidated financial report (continued)	I communicate with the Treasurer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit. From the matters communicated with the Treasurer, I determine those matters that were of most significance in the audit of the consolidated financial report of the current period and are therefore key audit matters. I describe these matters in the auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in the auditor’s report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.
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MELBOURNE
9 October 2025



Appendix D:

Results of material entity audits

Figure D1: Audit opinions issued and key financial information for material entities

Entity	Benefit	Revenue (\$ million)	Expenses (\$ million)	Assets (\$ million)	Liabilities (\$ million)	Financial report certified	Audit opinion issued	Type
General government sector (GGS)								
Department of Education	Controlled	17,415	17,396	48,365	3,539	4/09/2025	8/09/2025	Unmodified
	Administered	5,572	5,521	116	0			
Department of Energy, Environment and Climate Action	Controlled	3,304	3,222	3,445	9,983	23/09/2025	2/10/2025	Unmodified
	Administered	1,837	1,842	5,310	3,136			
Department of Government Services	Controlled	725	686	1,409	146	1/10/2025	6/10/2025	Unmodified
	Administered	1,140	1,373	1,954	2,360			
Department of Families, Fairness and Housing	Controlled	7,342	7,812	41,496	2,402	12/09/2025	19/09/2025	Unmodified
	Administered	3,042	3,043	3	3			
Department of Health	Controlled	21,615	21,060	10,647	5,591	8/09/2025	10/09/2025	Unmodified
	Administered	18,466	18,469	400	400			
Department of Jobs, Skills, Industry and Regions	Controlled	3,764	3,595	1,378	529	22/10/2025	23/10/2025	Unmodified
	Administered	42	44	71	0			
Department of Justice and Community Safety	Controlled	10,537	10,775	8,812	3,577	8/10/2025	15/10/2025	Unmodified
	Administered	1,492	1,283	2,729	638			
Department of Premier and Cabinet	Controlled	585	583	386	76	24/09/2025	29/09/2025	Unmodified
	Administered	15	15	12	12			
Department of Transport and Planning	Controlled	9,278	9,570	162,179	18,885	23/09/2025	2/10/2025	Unmodified
	Administered	5,075	4,828	56,427	12,341			
Department of Treasury and Finance	Controlled	465	459	224	142	24/09/2025	1/10/2025	Unmodified
	Administered	96,640	99,556	270,433	205,578			
Eastern Health	Controlled	1,718	1,772	1,970	630	20/08/2025	26/09/2025	Unmodified

Entity	Benefit	Revenue (\$ million)	Expenses (\$ million)	Assets (\$ million)	Liabilities	Financial report certified	Audit opinion issued	Type
Melbourne Health	Controlled	1,821	1,810	1,703	649	29/08/2025	4/09/2025	Unmodified
Monash Health	Controlled	3,464	3,545	4,241	1,185	1/09/2025	16/09/2025	Unmodified
National Gallery of Victoria	Controlled	234	159	5,675	48	28/08/2025	2/09/2025	Unmodified
Office of the Chief Commissioner of Police	Controlled	4,575	4,610	5,001	2,992	11/09/2025	2/10/2025	Unmodified
	Administered	84	81	68	65			
Suburban Rail Loop Authority	Controlled	118	118	4,808	252	15/09/2025	18/09/2025	Unmodified
The Royal Children's Hospital	Controlled	1,149	1,178	1,921	1,056	25/08/2025	29/08/2025	Unmodified
Victorian Gambling and Casino Control Commission	Controlled	46	46	29	14	17/09/2025	29/09/2025	Unmodified
	Administered	2,271	2,416	369	1,279			
Total GGS*		223,832	226,869	641,580	277,509			
Public non-financial corporations (PNFCs)								
Goulburn–Murray Rural Water Corporation	Controlled	172	229	5,185	701	27/08/2025	10/09/2025	Unmodified
Greater Western Water	The audit of Greater Western Water was not complete at the time of issuing this report.							
Melbourne Port Lessor Pty Ltd	Controlled	198.2	109.3	11,790	8,191	18/09/2025	19/09/2025	Unmodified
Melbourne Water Corporation	Controlled	2,111	1,954	18,657	10,607	29/08/2025	5/09/2025	Unmodified
North East Link State Tolling Corporation	Controlled	4	27	7,853	5,264	10/09/2025	11/09/2025	Unmodified
South East Water Corporation	Controlled	1,221	1,109	5,949	3,899	26/08/2025	1/09/2025	Unmodified
VicTrack	Controlled	199	1,607	88,232	15,190	9/09/2025	18/09/2025	Adverse

Entity	Benefit	Revenue (\$ million)	Expenses (\$ million)	Assets (\$ million)	Liabilities	Financial report certified	Audit opinion issued	Type
Yarra Valley Water Corporation	Controlled	1,289	1,146	7,052	5,065	1/09/2025	11/09/2025	Unmodified
Total PNFCs*		5,194	6,182	144,718	48,916			
Public financial corporations (PFCs)								
Transport Accident Commission	Controlled	4,507	2,919	21,185	19,256	28/08/2025	9/09/2025	Unmodified
Treasury Corporation of Victoria	Controlled	176	81	207,394	207,193	26/08/2025	1/09/2025	Unmodified
Victorian Managed Insurance Authority	Controlled	1,385	1,267	4,856	5,214	1/10/2025	7/10/2025	Unmodified
WorkSafe Victoria	Controlled	8,654	7,554	32,420	32,494	22/08/2025	9/09/2025	Unmodified
Total PFCs*		14,723	11,822	265,855	264,158			

*Note: Amounts include transactions between entities. These transactions are eliminated on consolidation in the AFR. Total for PNFCs excludes GWW.
Source: VAGO.

Appendix E:

Financial measures and targets

Financial targets becoming more qualitative and less specific

Changes to financial targets during the pandemic The government has changed its approach to setting measures and what its targets are over the last 11 years. In 2020–21, the government's focus on economic recovery after the COVID-19 pandemic led to the removal of the 'operating surplus' target and the introduction of the 'operating cash surplus' and 'interest expense to revenue' targets.

Targets have become less specific Figure E1 shows the various measures the government has used and how they vary from specifically quantifiable targets to ones that allow for flexibility in response to economic conditions.

Figure E1: Changes to Victoria's financial targets over the last 13 years

Year	Operating cash surplus	Net debt to GSP	Superannuation liabilities	Interest expense to revenue	Operating surplus	Infrastructure investment
2025–26	A net operating cash surplus consistent with maintaining general government net debt at a sustainable level	General government net debt as a percentage of GSP to stabilise and reduce in the medium term	Fully fund the unfunded superannuation liability by 2035	General government interest expense as a percentage of revenue to stabilise in the medium term		
2024–25						
2023–24						
2022–23	A net operating cash surplus consistent with maintaining general government net debt at a sustainable level after the economy has recovered from the COVID-19 pandemic	General government net debt as a percentage of GSP to stabilise in the medium term				
2021–22						
2020–21						
2019–20		General government net debt as a percentage of GSP to be maintained at a sustainable level over the medium term			A net operating surplus consistent with maintaining general government net debt at a sustainable level over the medium term	
2018–19						
2017–18						
2016–17						
2015–16						

Year	Operating cash surplus	Net debt to GSP	Superannuation liabilities	Interest expense to revenue	Operating surplus	Infrastructure investment
2014–15		General			A net operating surplus of at least	Infrastructure investment of 1.3% of GSP (calculated as a rolling 5-year average)
2013–14		government net debt reduced as a percentage of GSP over the decade to 2022			\$100 million and consistent with the infrastructure and debt parameters	

Source: VAGO, based on the state Budget.

Challenges understanding these targets

Parliamentarians and the community may find it challenging to measure the financial performance of the government when the measures are more qualitative and less specific. Quantitative and specific measures help Parliament and the public hold the government accountable and improve transparency.

Appendix F:

Acronyms and glossary

Acronyms

We use the following acronyms in this report:

Acronym	Full spelling
AFR	Annual Financial Report of the State of Victoria
BPC	Building and Plumbing Commission
DBI	domestic building insurance
DJCS	Department of Justice and Community Safety
DJSIR	Department of Jobs, Skills, Industry and Regions
DPC	Department of Premier and Cabinet
DTF	Department of Treasury and Finance
DTP	Department of Transport and Planning
EBA	enterprise bargaining agreement
GGS	general government sector
GSP	gross state product
MoG	machinery of government
PFC	public financial corporation
PNFC	public non-financial corporation
SLA	service level agreement
TAC	Transport Accident Commission
TCV	Treasury Corporation of Victoria
TEI	total estimated investment
VAGO	Victorian Auditor-General's Office
VFF	Victorian Future Fund
VMIA	Victorian Managed Insurance Authority
VPS	Victorian Public Service

Glossary

The following terms are included in or relevant to this report

Term	Explanation
Accountability	Accountability refers to the responsibility of public sector entities to achieve their objectives in the reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws and reporting to interested parties.
Adverse opinion	We make an adverse opinion when an entity's financial reports are misrepresented, misstated or do not accurately reflect the entity's financial health.
Asset	An asset is an item or resource controlled by an entity that will be used to generate future economic benefits.
Clear audit opinion	A clear audit opinion adds credibility to the financial report by providing reasonable assurance that reported information is reliable and accurate and complies with the requirements of relevant Australian Accounting Standards and applicable legislation.
Fiscal cash surplus/deficit	The cash surplus/deficit is calculated by: - net cashflows received from operating activities, which are the sum of cash received from sources, such as taxes and government grants, offset by cash spent on operating expenses, such as employee costs - plus net cashflows from investment in non-financial assets, being the sum of cash earned from investment activities, such as the sale of land and buildings, offset by cash spent on capital projects
Fiscal strategy	A fiscal strategy is a clear statement of the government's fiscal objectives and targets over a defined period. It sets out the government's short term and long-term fiscal strategies and objectives for managing its finances and existing and emerging risks. It also demonstrates how planned government policies will contribute to fiscal sustainability and macro-economic stability.
Fiscal sustainability	Fiscal sustainability is the ability of the government to maintain public finances at a credible and serviceable position now and into the future. Ensuring long-term fiscal sustainability requires governments to engage in ongoing monitoring and strategic forecasting of future revenue and expenditure, environmental factors and socioeconomic trends to remain financially resilient.
Funding position	Funding position shows the proportion of a superannuation fund's liability covered by the fund's assets. It is a measure of whether the fund has enough assets to pay out future benefits to its members.
Government bond	A government bond is a loan for a specified period with regular interest payments with repayment of face value in full at the maturity.
Insurance funding ratio	Insurance funding ratio is a funding ratio of available assets to estimated liabilities used to monitor the long-term financial sustainability of an insurance scheme.
Intergenerational equity	Intergenerational equity means fairly sharing economic costs and benefits of the government's fiscal policy decisions, such as taxation, public spending and borrowing across different generations.
Intra-sector or intra-agency transactions	Intra-sector or intra-agency transactions are financial transactions that occur between 2 entities in the same sector, or between 2 sectors of government. When an annual financial report is prepared, the accounts are adjusted so these transactions are not counted twice.
Key audit matters	Auditors may include a description of key audit matters in the auditor's report, as described in Auditing Standard ASA 701 <i>Communicating Key Audit Matters in the Independent Auditor's Report</i> . Key audit matters are determined by the auditor as the matters of most significance to the audit. We voluntarily adopt key audit matter reporting for the AFR and material entities to enhance the value of our audit reports by providing greater transparency and insights about our audit process. Key audit matters are not opinions and are not necessarily adverse findings.
Limited assurance	We obtain less assurance when we rely primarily on an agency's representations and other evidence generated by that agency. However, we aim to have enough confidence in our conclusion for it to be meaningful. We call these types of engagements assurance reviews and typically express our opinions in negative terms. For example, that nothing has come to our attention to indicate there is a problem. See our assurance services fact sheet for more information.
Material	Omissions or misstatements of items are material if they could individually or collectively influence the economic decisions that users make on the basis of the financial report. Materiality depends on the size

Term	Explanation
	and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.
Material entities	Material entities are the entities that account for most of the state's assets, liabilities, revenue and expenses. In forming our opinion on the AFR, we focus on the financial transactions and balances of these entities.
Net operating balance	Net operating balance is revenue from transactions minus expenses from transactions. It is the part of the change in net worth that can directly be attributed to government policies and is a key measure of GGS financial performance and operating sustainability. It is also known as net result from transactions.
Nominal value	Nominal value is the value measured in terms of absolute money amount without taking inflation or other factors into account.
Outstanding insurance claim	An outstanding insurance claim is a claim that the insuring entity is responsible for paying in the future where the claim arises from an event that occurred on or before the valuation date. The liability includes an allowance for claims that have occurred but have not yet been reported to the insuring entity.
Public sector	The overall public sector comprises of around 1,750 organisations, including 1,500 schools and 250 entities, such as hospitals, emergency services, water authorities, cemetery trusts, creative industry agencies and sport and recreation organisations. These agencies fall within the GGS and public corporation sectors.
Public corporations	Public corporations are state-owned entities or statutory authorities established under legislation. They include: - public non-financial corporations that provide a wide range of goods and services while meeting commercial principles through cost recovery via user fees and charges - public financial corporations that deal with financial aspects of the state. They have the power to borrow, accept deposits and acquire financial assets.
Qualified opinion	We express a qualified opinion when we: - have obtained sufficient evidence that misstatements are material but not pervasive to the financial report - are unable to obtain sufficient evidence that the possible effects of undetected errors could be material but not pervasive to the financial report.
Reasonable assurance	We achieve reasonable assurance by obtaining and verifying direct evidence from a variety of internal and external sources about an agency's performance. This enables us to express an opinion or draw a conclusion against an audit objective with a high level of assurance. We call these audit engagements. See our assurance services fact sheet for more information.

Appendix G:

Internal control and financial reporting issues risk ratings

Figure G1 defines the risk ratings that we apply to internal control and financial reporting issues. It also details what the ratings represent and the expected timelines for the issue to be resolved.

Figure G1: Risk rating definitions

Rating	Definition	Management action required
High	The issue represents: - a material misstatement in the financial report that has occurred, or an issue that could potentially result in a modified audit opinion if not addressed as a matter of urgency by the entity or - a control weakness that is or could majorly disrupt a process or an entity's ability to achieve a process's objectives in relation to financial reporting and comply with relevant legislation.	High-risk issues require an entity's executive management to correct the misstatement in its financial report or address the issue as a matter of urgency to avoid a modified audit opinion. High-risk issues require management to immediately intervene with a detailed action plan and implement it within one month.
Medium	The issue represents: - a misstatement in a financial report that has occurred, or may occur, and has the possibility to become material or - a control weakness that could have or is having a moderate adverse effect on an entity's ability to achieve process objectives and comply with relevant legislation.	Medium-risk issues require management to intervene with a detailed action plan and implement it within 3 to 6 months.
Low	The issue represents: - a misstatement in a financial report that is likely to occur but is not expected to be material or - a minor control weakness with minimal but reportable impact on an entity's ability to achieve process objectives and comply with relevant legislation or - an opportunity to improve an existing process or internal control.	Low-risk issues require management to intervene with a detailed action plan and implement it within 6 to 12 months.

Source: VAGO.

Auditor-General's reports tabled in 2025–26

Report title	Tabled
<i>Delivering Savings Under the COVID Debt Repayment Plan</i> (2025–26: 1)	July 2025
<i>Planned Surgery in Victoria</i> (2025–26: 2)	August 2025
<i>Financial Management of Local Councils</i> (2025–26: 3)	August 2025
<i>Responses to Performance Engagement Recommendations: Annual Status Update 2025</i> (2025–26: 4)	September 2025
<i>Relief and Recovery Funding for the 2022 Floods</i> (2025–26: 5)	October 2025
<i>Cybersecurity of IT Servers</i> (2025–26: 6)	October 2025
<i>Accessibility of Tram Services: Follow-up</i> (2025–26: 7)	November 2025
<i>Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2024–25</i> (2025–26: 8)	November 2025

All reports are available for download in PDF and HTML format on our website at <https://www.audit.vic.gov.au>

Our role and contact details

The Auditor-General's role

For information about the Auditor-General's role and VAGO's work, please see our online fact sheet [About VAGO](#).

Our assurance services

Our online fact sheet [Our assurance services](#) details the nature and levels of assurance that we provide to Parliament and public sector agencies through our work program.

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