

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 rest solely with the relevant agency head.

Responses received

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Treasurer of Victoria	A-2
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Department of Health	A-7
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Department of Transport and Planning	A-9
Homes Victoria	A-11



Treasurer of Victoria

Minister for Industrial Relations

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Telephone: +61 3 7005 9474

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, 2025-26

Thank you for your letter on 8 October 2026, seeking my responses to your report on the Annual Financial Report (AFR) of the State of Victoria 2025-26 (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 2026. 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 highlighted in the 2026-27 State Budget, Victoria's economy has navigated challenging periods in recent years and enters this current period of uncertainty with the labour market healthy, and economic activity, business investment and employment all growing. In response to the COVID-19 pandemic, the Government developed, and has since maintained, a comprehensive fiscal strategy to protect Victorian households and businesses and provide a strong foundation for recovery. The Government has consistently reported on its progress over the last five years. This strategy provides a clear framework:

- 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 report notes the continuing impacts of challenging local and international economic conditions on the State's finances, while also acknowledging the progress against the Government's fiscal strategy, including achieving the first operating surplus in seven years, reporting operating cash surpluses since 2022-23, and progressing various initiatives designed to strengthen the State's financial position.

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Having delivered an operating surplus in 2025-26 and therefore achieving step 3 of the fiscal strategy, the Government remains committed to the long-term financial management objectives set out in the State Budget. Net debt for the GGS was \$160.7 billion at 30 June 2026, \$4.7 billion lower than forecast in the 2026–27 State Budget, and the State Budget continues to forecast that net debt will reduce as a proportion of GSP over the forward estimates, in line with step 4 and 5 of the fiscal strategy.

The Government notes the broader observations in the report regarding financial reporting processes, fiscal risks and longer-term planning. These are matters that the Government continues to consider carefully as part of ongoing work to strengthen financial governance, reporting quality and accountability across the public sector.

Responses to recommendations

The Government's responses to the recommendations directed to the Department of Treasury and Finance are set out below.

Recommendation	Response
<p>DTF to work with government as a matter of priority to:</p> <ul style="list-style-type: none"> • address our previous recommendations to strengthen fiscal management, debt management, long-term planning and transparency • progress work on addressing the fiscal management and strategy recommendation of the Independent Review of the Victorian Public Service. <p>In doing so, consider how transparency can be enhanced to help Parliament and the community understand the state's underlying financial performance, progress against its fiscal strategy and exposure to existing and emerging fiscal risks.</p>	<p>Noted</p> <p>The five-step fiscal strategy provides a clear anchor for the State's long-term financial plan. DTF continues to work to further strengthen financial performance, accountability and transparency across Government. In doing so, DTF will continue to support reporting and advice that improves understanding of the State's fiscal position, while ensuring that complex matters are presented with appropriate context and in a manner consistent with existing budget, financial reporting and policy frameworks. Updates on the delivery of the government's fiscal strategy are provided multiple times a year in the Budget, Annual Financial Report, the Budget Update, the Pre-Election Budget Update (where relevant) and any other fiscal updates that might be released over the course of a given year.</p>
<p>DTF to work with the Department of Transport and Planning and VicTrack to assess whether the current accounting treatment for operational transport assets:</p> <ul style="list-style-type: none"> • appropriately reflects the economic substance of the underlying arrangement • use a measurement basis that appropriately reflects the economic benefits obtained from using the 	<p>Not Supported</p> <p>The accounting treatment of operational transport assets is consistent with Australian Accounting Standard AASB 16 <i>Leases</i> and Victorian Government policy, including Financial Reporting Direction 104 <i>Leases</i>. The Australian Accounting Standards Board, at its August 2026 meeting, decided to retain the current</p>

<p>assets and the cost of consuming those benefits in the general government sector</p> <ul style="list-style-type: none">• clearly identifies and considers the effect on reported and forecast general government sector financial outcomes• provides users with a transparent understanding of the economic substance of the arrangements and the cost of delivering public transport services within the general government sector.	<p>policy choice in AASB 16 for not-for-profit public sector lessees to initially measure concessionary lease right-of-use assets at either cost or fair value on an ongoing basis.</p> <p>The treatment adopted in Victoria is also consistent with the general practice across other Australian jurisdictions. Deviating from the practice generally used in other jurisdictions could result Victoria's financial reporting being misinterpreted when compared to the financial reporting of other jurisdictions, which would not serve the public interest.</p>
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Thank you again for the opportunity to comment on the proposed report prior to its finalisation.

Yours sincerely



The Hon. Colin Brooks MP
Treasurer

22/10/2026



Department of Government Services

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

By email: [REDACTED]

Dear Auditor-General

Proposed report: Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2025–26 (ref 34068–26)

Thank you for the opportunity to respond to the proposed report. The Department of Government Services (DGS) accepts the findings that relate to it.

Assurance over shared services

DGS will provide the departments of Treasury and Finance (DTF), Premier and Cabinet (DPC) and Transport and Planning with an independent ASAE 3402 Type II report over financial management activities for 2026–27.

VicGov People payroll migration

DGS is pleased to acknowledge that the audit identified no material errors in payroll amounts or disclosures at 30 June 2026 following the migration of payroll for DGS, DTF and DPC, as well as several portfolio agencies, from EduPay to VicGov People, providing further assurance of VicGov People's successful implementation.

DGS accepts that the evidence retained to demonstrate governance, approvals and migration checks was not provided in a timely manner to fully meet audit requirements for a transition of this scale. DGS recognises post-implementation reviews as an element of good project governance and will continue to undertake them as a matter of course to capture lessons learned, address identified issues, strengthen governance and support continuous improvement.

Yours sincerely

Jo de Morton
Secretary

20/10/2026

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.



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Department of Energy, Environment
and Climate Action

PO Box 500, East Melbourne,
Victoria 8002 Australia

SEC-261000139

Mr Andrew Greaves
Auditor-General

Dear Mr Greaves

Thank you for your letter of 8 October 2026 regarding your Office's proposed *Report on the Annual Financial Report of the State of Victoria: 2025-26* (Report) and for the opportunity to provide a formal response.

The proposed Report refers to the Department of Energy, Environment and Climate Action (DEECA) in relation to the administration of the Sustainability Trust Fund and the timing of the resolution of a complex accounting matter. DEECA's formal responses are set out below.

Growing Trust Account balances

Consistent with the department's 2024-25 response, 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. Each year, the department submits funding proposals for the Government's consideration through the annual budget process. Assessing whether current spending patterns are effectively achieving the Fund's purpose, as recommended in the Report, is a matter for the Government when setting its priorities through the annual State Budget.

Timing of the resolution of a complex accounting matter

The department provided VAGO its initial accounting position paper on the referenced contract in early July 2026, before the scheduled final audit visit commenced. The matter was resolved and reported on within the agreed timeframes.

If you would like further information about this matter, please contact Etienne Gouws, Executive Director/Chief Finance Officer via email at [REDACTED]

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

Yours sincerely

Kate Houghton PSM
Secretary



Official - Sensitive



Secretary

Department of Health

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

Via e-mail: [REDACTED]

Dear Mr Greaves

Response to Draft Auditor-General's Report on the 2025-26 Annual Financial Report of the State of Victoria

Thank you for your letter dated 8 October 2026, inviting the Department of Health (the department) to provide comments on the draft *Auditor-General's Report on the 2025-26 Annual Financial Report of the State of Victoria*.

The Department has reviewed the draft report and considers its findings and observations to be fair and accurate. This includes findings that incomplete information prevented the transfer of the new Footscray Hospital from the Department to Western Health in 2025-26.

The department is currently working with the Victorian Infrastructure Delivery Authority (VIDA) Health and Western Health to ensure the full and proper transfer of the new Footscray Hospital to Western Health in 2026-27. The Department will also work with VIDA Health to clarify accountability, documentation and assurance requirements for timely and accurate future asset transfers.

The department also notes that the draft report should be amended to reflect the approved New Footscray Hospital project cost of \$2.15 billion, rather than \$1.50 billion as discussed and agreed with your officers.

Thank you for the opportunity to comment on the draft report. The department remains committed to working with the relevant parties to address the matters identified.

If you require further information please contact Bernard Rohan, Chief Finance Officer, at [REDACTED]

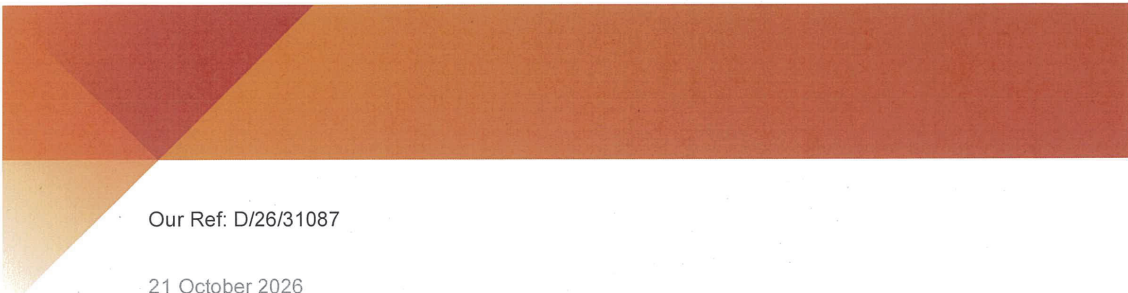
Yours sincerely

Jenny Atta PSM

Secretary

20/10/2026





Our Ref: D/26/31087

21 October 2026

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

Dear Mr ██████████

Re: Auditor-General's Report on the 2025-26 Annual Financial Report of the State of Victoria

Thank you for the opportunity for Victorian Rail Track (VicTrack) to provide comments on the *Auditor-General's Report on the 2025-26 Annual Financial Report of the State of Victoria*.

VicTrack has a long-standing difference of opinion with the Victorian Auditor-General's Office (VAGO) on the classification of its lease arrangements, which resulted in the adverse qualification first issued in 2019-20 for VicTrack and its consolidated entities.

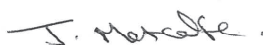
VicTrack's position as lessor in relation to these arrangements has been informed by comprehensive accounting and legal advice, and the Consolidated Entity's view remains that the leasing arrangements are substantially unchanged from a lessor perspective.

Further, VicTrack's position remains consistent with the Department of Transport and Planning's (DTP) 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 2025-26 Financial Statements, consistent with the approach taken in previous years.

In addition, VicTrack welcomes VAGO's recognition of the significant progress achieved in asset accounting and asset record management. The removal of the qualification relating to historical asset record uncertainty reflects the sustained effort undertaken by VicTrack and DTP over several years to strengthen asset records, governance and financial reporting practices.

VicTrack remains committed to maintaining strong financial reporting practices, and looks forward to continuing to work constructively with VAGO, DTP and the Department of Treasury and Finance (DTF) on such matters.

Yours sincerely



Jonathan Metcalfe
Chief Executive
VicTrack

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Department of Transport and Planning

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Ref: BSEC-1-26-5307

Mr Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
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E: [REDACTED]

Dear Mr Greaves,

DTP Response to the Auditor-General's Report on the 2025–26 Annual Financial Report of the State of Victoria

Thank you for your letter dated 8 October 2026, inviting the Department of Transport and Planning (the Department) to provide a submission to the proposed Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2025–26.

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

VicTrack adverse audit opinion

VicTrack and the Department have assessed and accounted for the arrangement in accordance with current Australian Accounting Standards. The Department'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.

Metro Tunnel asset transfer to VicTrack

The Department commenced coordination with relevant stakeholders regarding the Metro Tunnel asset transfer early in the 2025–26 financial year. While proactive engagement began promptly, the unprecedented scale and inherent complexity of the transaction ultimately extended the required reporting and audit timeframes to ensure accuracy. Noting the significant impact of delays, the Department will build additional lead time into the planning phases for future complex accounting matters.

Growing Trust Fund balance

The Department notes the finding regarding growing trust fund balances, including the Growth Areas Public Transport Fund. The Department continuously monitors the trust balance 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 fund's objectives.



Major project cost escalation

The Department notes the significant impact of macroeconomic factors, including sector-wide cost escalation and supply chain constraints, on the delivery of major infrastructure. Strong governance arrangements are in place across projects that include clearly defined accountabilities, independent assurance processes, regular reporting, executive and ministerial oversight, and mechanisms to identify, escalate and manage emerging risks.

Asset maintenance and future service costs and disruptions

The Department notes the continuing increase on demands placed on the road network. In response to these challenges the Department has undertaken significant reforms in recent years. The establishment of the Victorian Road Maintenance Contract model has been central to this work, strengthening accountability, improving oversight of contractor performance and supporting a data-driven approach to maintenance planning. These reforms provide a stronger foundation for maximising the benefits of maintenance activities to the network.

The Department acknowledges the opportunities for further improvement and has established an action plan to address the recommendations in VAGO's report, *Maintaining State Roads*. The action plan will build on the reforms already underway.

Asset information collection for major projects

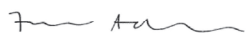
The Department notes that implementing a progressive collection approach during active construction would present significant operational challenges. However, VAGO's recommendation to embed information requirements (including asset attributes) into project planning aligns with the procurement enhancements currently being explored by the Department.

Shared service assurance

The Department acknowledges 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 DGS providing an ASAE 3402 assurance report, the Department 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 Xavier Hinckson, Chief Financial Officer, at [REDACTED].

Yours sincerely



Fiona Adamson
Secretary

23 October 2026





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CORG-261000020

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Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
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Dear Mr. Greaves,

VAGO Proposed Report: Auditor General's Report on the Annual Financial Report of the State of Victoria 2025-26

Thank you for your letter dated 8 October 2026 inviting Homes Victoria to provide a formal submission to the proposed Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2025-26.

We believe that statements made about Homes Victoria's operating performance do not accurately portray the underlying Public Non Financial Corporation (PNFC) results, nor the financial discipline and governance that is in place.

- Homes Victoria's underlying result is a modest surplus, after removing non-cash depreciation and net interest, which demonstrates sound day-to-day cashflow management and financial discipline. Increased depreciation does not indicate a deterioration in operating performance.
- Homes Victoria's net result before transactions is negative entirely because of:
 - non cash depreciation expense which reflects growth in the number and value of public housing homes as well as accelerated depreciation from the high-rise towers redevelopment
 - timing differences between receipt of government funding for multi-year capital programs whereby revenue is recognised on receipt and expenditure on acquittal. These fluctuations in the net result, which balance out over the life of each program, have no relevance to underlying operating performance.
- We are investing significantly more in our properties than the value being lost each year through wear and ageing and are putting a program in place to continue maintaining capital expenditure in line with depreciation. Ensuring that capital expenditure keeps pace or exceeds depreciation is a leading indicator of a healthy operation.

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- There continues to be close and detailed management of housing revenue and expenditure, most notably repairs and maintenance and staff costs, both of which are running to budget.

There has been strong progress towards the goal of growing social housing stock by 10% by the end of the Big Housing Build, where we are currently at 8% with two years to go. Whilst a proportion of this growth has come from investment in community housing, Homes Victoria owned or managed stock has also grown. As at 30 June 2026, this stood at 74,260 social housing homes, which is an increase of more than 2,400 new homes over the past five years. This will provide more comfortable places to live and help take pressure off our long-term maintenance costs.

We will continue to manage our revenue and expenditure very closely, to ensure we can provide more and better homes for Victorians into the future.

Yours sincerely



Simon Newport
Chief Executive Officer
Homes Victoria

23/10/2026

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