

Appendix C:

Audit report on the AFR

Independent Auditor’s Report



To the Treasurer of the State of Victoria

Opinion	<p>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:</p> <ul style="list-style-type: none">consolidated State and General Government Sector balance sheets as at 30 June 2026consolidated State and General Government Sector comprehensive operating statements for the year then endedconsolidated State and General Government Sector statements of changes in equity for the year then endedconsolidated State and General Government Sector cash flow statements for the year then endednotes to the consolidated financial statements, including material accounting policy informationcertification by the Treasurer and the Secretary of the Department of Treasury and Finance. <p>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 2026 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.</p>
Basis for opinion	<p>I have conducted my audit in accordance with the <i>Audit Act 1994</i>, which incorporates the Australian Auditing Standards. I further describe my responsibilities under that Act and those standards in the <i>Auditor’s responsibilities for the audit of the consolidated financial report</i> section of my report.</p> <p>My independence is established by the <i>Constitution Act 1975</i>. My staff and I are independent of the State and the General Government Sector in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board’s APES 110 <i>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.</p> <p>I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.</p>
Key audit matters	<p>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.</p>

Key audit matter	How I addressed the matter
Financial reporting risks arising from progress towards key financial targets <i>Refer to the consolidated comprehensive operating statement, the consolidated cash flow statement and Note 7.1 which explains material variances between the budgeted and actual outcomes</i>	
<p>Net operating surplus: \$2.4 billion (2025–26 Budget: \$0.6 billion)</p> <p>Net cash flows from operating activities: \$9.8 billion (2025–26 Budget: \$6.2 billion)</p> <p>The Government continues to operate in a fiscally constrained environment characterised by increasing service delivery costs, rising debt and interest expenses, and ongoing economic uncertainty.</p> <p>In the 2025–26 State Budget, the Government forecast that the GGS would return to a net operating surplus after six consecutive years of deficits and maintain operating cash surpluses over the budget and forward estimates period. To support those outcomes, the Government is implementing savings initiatives, including workforce changes, efficiency measures and some recommendations from the Independent Review of the Victorian Public Service.</p> <p>I considered this to be a key audit matter because the challenging fiscal environment, the Government's focus on achieving financial targets, and the implementation of savings initiatives increased the risk of material misstatement in the financial report arising from:</p> <ul style="list-style-type: none"> • pressure to achieve financial targets and deliver savings, which may increase the risk of management bias in accounting judgements, estimates and classifications • incentives to manage reported outcomes, including through the timing, recognition and classification of revenue, expenditure and cash flow transactions • economic conditions, including inflation, wage growth, higher interest rates and geopolitical uncertainty • the implementation of savings initiatives including whether their financial impacts have been completely and accurately reflected in the financial report • resource constraints and workforce changes that may affect the effectiveness of internal controls over financial reporting. 	<p>My key audit procedures included:</p> <ul style="list-style-type: none"> • obtaining an understanding of, evaluating and testing controls relevant to the preparation of the consolidated financial report, including financial reporting controls at entities and business activities within the State and General Government Sector • gaining an understanding of the Government's key financial measures and targets, the savings initiatives and implementation steps planned to achieve them, and considering their implications for the risks of material misstatement in the financial report • considering the impact of economic conditions, including inflation, wage growth, interest rates and geopolitical uncertainty on significant accounting estimates, judgements and material transactions • assessing the accounting treatment of significant or complex transactions and applying heightened professional scepticism where those transactions affected reported financial outcomes or progress against financial targets • testing material journal entries and other adjustments recorded in preparing the financial report, with particular attention to unusual, non-routine or higher-risk entries • performing audit procedures over material revenue, income and expenditure transactions and operating cash flows, and investigating significant or unusual movements • assessing significant accounting estimates and judgements for indicators of management bias, including those associated with savings initiatives, workforce reforms and related liabilities • evaluating the recognition and classification of material cash receipts and payments including compliance with AASB 107 <i>Statement of Cash Flows</i> • evaluating whether the related disclosures were complete, accurate and appropriate in the context of the financial report and in accordance with the Australian Accounting Standards.

Key audit matter	How I addressed the matter
<p>Recognition of transport assets</p> <p><i>Refer to Note 4.1 Land, buildings, infrastructure, plant and equipment</i></p> <p>The State continues to invest heavily in transport infrastructure, adding materially to its asset base each year.</p> <p>As at 30 June 2026, it reported \$51.1 billion in construction in progress, down from \$75.9 billion in 2025. The decrease primarily reflects the capitalisation of major transport projects this year.</p> <p>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.</p> <p>I considered the recognition of transport assets to be a key audit matter because:</p> <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> ○ 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. 	<p>My key audit procedures included:</p> <ul style="list-style-type: none"> • 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 completeness and adequacy of the financial report disclosures against the requirements of Australian Accounting Standards.

Key audit matter	How I addressed the matter
<p>Valuation of non-financial physical assets</p> <p><i>Refer to Note 4.1 Land, buildings, infrastructure, plant and equipment and Note 6.5 Fair value determination of non-financial assets</i></p> <p>Financial Reporting Direction 103 <i>Non-financial physical assets</i> required entities within the environmental protection, economic affairs, housing and community amenities and recreation, culture and religion function groups to undertake a full revaluation of their non-financial physical assets as at 30 June 2026.</p> <p>This year, the State reported significant growth in the value of its non-financial physical asset base, including:</p> <ul style="list-style-type: none"> an increase in the fair value of non-financial physical assets (excluding construction in progress) to \$491.6 billion, from \$424.8 billion in 2025 an increase of \$28.3 billion in the physical asset revaluation surplus. <p>I considered the valuation of non-financial physical assets to be a key audit matter because:</p> <ul style="list-style-type: none"> the balances of non-financial physical assets and related fair value changes are financially significant management engaged external valuation experts to assist in estimating fair value this year marked the initial application of amendments to AASB 13 <i>Fair Value Measurement</i> to assets within the environmental protection, economic affairs, housing and community amenities and recreation, culture and religion function groups. The amendments affected the current replacement cost approach used to determine fair value and required significant judgement by management and their external valuation experts the fair value estimates were derived using current replacement cost valuation models, which are inherently complex and involve significant judgements and assumptions AASB 13 requires extensive financial report disclosures, which are important to users' understanding of the valuation basis and assumptions applied. 	<p>My key audit procedures included:</p> <ul style="list-style-type: none"> 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, capabilities and objectivity of management's external valuation experts obtaining and evaluating the reports prepared by management's external valuation experts, including: <ul style="list-style-type: none"> testing the completeness and accuracy of data provided to the external valuation experts assessing the reasonableness and consistency of data, significant unobservable inputs and key assumptions used evaluating the appropriateness of the current replacement cost models used to value the non-financial physical assets verifying the computational accuracy of the fair value estimates. verifying the accounting treatment of the revaluation adjustments against the applicable Australian 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 2.8 Other liabilities, Note 4.1 Land, buildings, infrastructure, plant and equipment, Note 4.2 Other non-financial assets, Note 5.1 Borrowings and Note 5.7 Service concession arrangements</i>	
<p>Service concession assets - land, buildings, infrastructure, plant and equipment: \$63.4 billion</p> <p>Service concession assets - intangible produced assets: \$4.0 billion</p> <p>Service concession arrangement liabilities: \$9.9 billion</p> <p>Grant of a right to the operator liabilities: \$19.8 billion</p> <p>Service concession arrangement commitments: \$54.2 billion (nominal value)</p> <p>There are three types of service concession arrangements:</p> <ul style="list-style-type: none"> • arrangements where the State has contractual obligations to make payments and other contributions to the operators for constructing and operating assets • arrangements where the State has granted operators the right to charge the public directly for using assets • hybrid arrangements where the State has granted operators the right to charge the public for using assets and also makes contractual payments and other contributions to operators. <p>During 2025–26, the Metro Tunnel and West Gate Tunnel commenced operations, and the Suburban Rail Loop East was assessed as a service concession arrangement following the execution of the Linewide Franchise Agreement.</p> <p>I considered this to be a key audit matter because:</p> <ul style="list-style-type: none"> • 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 judgement • determining whether new or changed arrangements are within the scope of AASB 1059, and identifying the appropriate type of service concession arrangement are complex • the financial models used to measure assets, liabilities and commitments are complex and rely on significant assumptions and estimates • commissioning and reclassification of major projects require complete and accurate recognition, measurement and presentation of the related assets and liabilities • extensive disclosures are required by Australian Accounting Standards and are important to users' understanding of the nature, financial effects and future commitments associated with service concession arrangements. 	<p>My key audit procedures included:</p> <ul style="list-style-type: none"> • reviewing material contracts and contract amendments, supporting schedules, financial models and technical accounting papers including professional accounting advice obtained by the State where applicable • assessing whether new and changed arrangements were completely identified, appropriately assessed as being within the scope of AASB 1059 and correctly classified by type of service concession arrangement • evaluating the accounting for projects commissioned during the year, including whether related assets and liabilities were recognised, measured, classified and presented completely and accurately when the projects commenced operations • assessing the accounting treatment against the requirements of AASB 1059 and the reasonableness of management's significant judgements • engaging appropriately qualified independent subject matter experts to assess selected valuation methodologies and financial models, including the: <ul style="list-style-type: none"> ○ appropriateness of fair value methodologies ○ reasonableness and consistency of assumptions ○ reasonableness of inputs against underlying data, supporting documentation and, where applicable, actual costs incurred ○ accuracy of models • assessing the completeness and accuracy of recognised service concession assets, liabilities and commitments by reconciling them to the relevant contracts and underlying financial models • assessing the adequacy of the financial report disclosures against the requirements of Australian Accounting Standards.

Key audit matter	How I addressed the matter
<p>Valuation of defined benefit superannuation liability</p> <p><i>Refer to Note 3.3 Superannuation</i></p> <p>Defined benefit superannuation liability: \$17.1 billion</p> <p>The Emergency Services and State Super funds account for \$16.4 billion (95.9 per cent) of the State's defined benefit superannuation liability (the liability). The Emergency Services Superannuation Board (ESSB) manages these funds.</p> <p>I considered this to be a key audit matter because:</p> <ul style="list-style-type: none"> 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. 	<p>My key audit procedures included:</p> <ul style="list-style-type: none"> gaining an understanding and evaluating the design and implementation of key controls over the outsourced arrangement, and then testing their operating effectiveness, including those: <ul style="list-style-type: none"> 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: <ul style="list-style-type: none"> 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: <ul style="list-style-type: none"> 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
<p>Valuation of provision for insurance claims</p> <p><i>Refer to Note 3.7 Other provisions</i></p> <p>Provision for insurance claims: \$55.8 billion</p> <p>Victoria's major insurance agencies, the Victorian WorkCover Authority (WorkSafe), Transport Accident Commission (TAC) and Victorian Managed Insurance Authority (VMIA), collectively hold \$54.8 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.</p> <p>I considered these provisions to be a key audit matter because:</p> <ul style="list-style-type: none"> 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 the WorkSafe scheme reforms under the <i>Workplace Injury Rehabilitation and Compensation Amendment (WorkCover Scheme Modernisation) Act 2024</i> affect key assumptions and judgements used by management to value 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. 	<p>My key audit procedures included:</p> <ul style="list-style-type: none"> 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: <ul style="list-style-type: none"> assess the appropriateness of management's selection and application of the methods and significant assumptions 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.
<p>Other information</p>	<p>The Treasurer of Victoria is responsible for the Other Information, which comprises the information in chapters 1–3 and 5 of the 2025–26 Financial Report but does not include the consolidated financial report in chapter 4 and my auditor's report thereon.</p> <p>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.</p>

The Treasurer's responsibilities for the consolidated financial report	<p>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.</p> <p>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.</p>
Auditor's responsibilities for the audit of the consolidated financial report	<p>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.</p> <p>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:</p> <ul style="list-style-type: none"> • 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.

MELBOURNE
1 October 2026



Dave Barry
Deputy of the Auditor-General