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VAGO

Victorian Auditor-General's Office

Managing State-significant Risks

June 2024

Independent assurance report to Parliament
2023–24:24

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ISBN 978-1-921060-87-8

Managing State-significant Risks

Independent assurance report to Parliament

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

June 2024

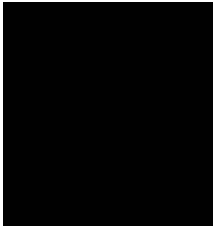
The Hon Shaun Leane MLC
President
Legislative Council
Parliament House
Melbourne

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 *Managing State-significant Risks*.

Yours faithfully



Andrew Greaves
Auditor-General
27 June 2024

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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Audit snapshot

What we examined

We examined if agencies are working collaboratively to identify and manage state-significant risks (SSRs) and if the Department of Treasury and Finance (DTF) provides confidence to the Assistant Treasurer and Treasurer on how well agencies manage them.

We examined the 10 portfolio departments and the Victorian Managed Insurance Authority (the Insurance Authority). We also examined 2 cross-agency groups – the State-Significant Risk Interdepartmental Committee (the Risk Committee) and the Victorian Secretaries' Board (the Secretaries' Board).

Why this is important

SSRs can disrupt Victoria's community, economy and environment. Victorians have already experienced the consequences of some of these risks, including a pandemic, bushfires and cyber-crime.

To reduce serious potential impacts in the future, government agencies need to work together to identify relevant SSRs and manage them appropriately.

We conducted audits in 2003, 2007 and 2013, and found agencies were not working together to do this.

What we concluded

Departments are working together to identify SSRs. But there are gaps in how they work together to manage shared SSRs and they do not know if this work is effective.

DTF's Victorian Government Risk Management Framework (the Framework) does not explain key responsibilities for SSRs. Addressing this would help fill gaps in agencies' coordination.

DTF could improve its advice to the Assistant Treasurer and Treasurer on the Framework and its operation, particularly with regard to:

- how effectively agencies manage SSRs
- how SSRs link to Victoria's funding priorities.

What we recommended

We made recommendations to DTF and the Insurance Authority about:

- the Framework's design
- advice to government
- the process to identify SSRs.

[→ Full recommendations](#)

Key facts



State-significant risks include **cyber incidents** and **statewide emergencies**, such as pandemics



The Framework is Victoria's guide for managing these risks



22 state-significant risks were identified by the Risk Committee in 2023

Source: VAGO.

Our recommendations

We made 5 recommendations to address 3 issues. The relevant agencies have accepted our recommendations in full or in principle.

| Key issues and corresponding recommendations | | | Agency response |
|---|---|--|-----------------------|
| Issue: The Victorian Government Risk Management Framework's design and guidance does not explain all agency responsibilities for state-significant risks | | | |
| Department of Treasury and Finance | 1 | Work with the Department of Premier and Cabinet to revise the Victorian Government Risk Management Framework and its associated guidance to clarify responsibilities for state-significant risks, including for: <ul style="list-style-type: none"> • lead and contributing agencies • central agencies and cross-agency committees • agencies and committees to coordinate reports and advice to government (see Section 2). | Accepted in principle |
| Issue: Agencies' advice to government on state-significant risks does not meet all obligations | | | |
| Department of Treasury and Finance | 2 | Establish and implement a process to assess how effectively the Victorian Government Risk Management Framework addresses state-significant risks and advise the Assistant Treasurer (see Section 3). | Accepted in principle |
| | 3 | Establish and implement a process to identify the implications of all state-significant risks for the state Budget and advise the Treasurer and Assistant Treasurer (see Section 3). | Accepted in principle |
| Victorian Managed Insurance Authority | 4 | Establish and implement a process to monitor risk management maturity at statewide level for state-significant risks and advise the Assistant Treasurer (see Section 3). | Accepted |
| Issue: The process to identify state-significant risks lacks key information | | | |
| Department of Treasury and Finance | 5 | Revise the process to identify state-significant risks to include: <ul style="list-style-type: none"> • criteria to assess and describe risks • whole-of-government objectives • a risk appetite statement (see Section 4). | Accepted in principle |

What we found

This section summarises our key findings. The numbered sections detail our complete findings, including supporting evidence.

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

Why we did this audit State-significant risks (SSRs) are risks that can materially disrupt Victoria's community and economy.

The Department of Treasury and Finance (DTF) is the central agency that supports the Assistant Treasurer to manage Victoria's budget, finances and performance.

DTF established the Victorian Government Risk Management Framework (the Framework) to:

- set the minimum requirements for agencies to manage risk effectively
- provide statewide responsibilities and guidance for managing SSRs, including agency roles for coordinating cross-agency responses.

We conducted 3 audits of public sector risk management between 2003 and 2013. We found a progressive improvement in how agencies managed their own risks.

But we found the Framework lacked clarity on arrangements for managing shared risks and SSRs. And that agencies were not working together to manage them effectively.

Our key findings Our findings fall into 3 key areas:

| | |
|---|---|
| 1 | The Framework does not include key elements to explain agencies' responsibilities to manage SSRs. |
| 2 | DTF, the Victorian Managed Insurance Authority (the Insurance Authority) and the State-Significant Risk Interdepartmental Committee (the Risk Committee) have not met all their obligations to advise the government on SSRs. |
| 3 | The way departments identify SSRs lacks rigour and they do not coordinate how they manage SSRs at the statewide level. |

Key finding 1: The Framework does not include key elements to explain agencies' responsibilities to manage SSRs

Guidance on roles and responsibilities

The Framework explains that an agency is responsible to its ministers for risks it is exposed to, including SSRs. It includes requirements and guidance to manage risks.

But it does not sufficiently explain:

- what individual agencies should do to manage SSRs they share with others, including expectations for the lead and contributing agency roles
- what key central agencies need to do to fulfil their roles for SSRs.

DTF did not design the Framework to include guidance on what agencies need to do to demonstrate how they address SSRs in their own risk management frameworks.

DTF told us that it designed the Framework to:

- set minimum requirements for agencies to manage risks
- give agencies flexibility in how they meet these requirements.

But agencies have told the Risk Committee that they need clearer expectations, more guidance and examples to support them to manage SSRs.

As a result, there are gaps in how agencies work together on SSRs they share.

To bridge these gaps, the Department of Families, Fairness and Housing (DFFH) has developed comprehensive guidance on managing SSRs. But the other 9 departments have not done this.

DTF, the Insurance Authority and the Risk Committee have not fulfilled all their responsibilities for advising the Assistant Treasurer.

Arrangements to evaluate the Framework's effectiveness

DTF is responsible for maintaining and updating the Framework and advising the Assistant Treasurer on its effectiveness.

The Risk Committee is also responsible for advising the Assistant Treasurer on the Framework's effectiveness.

But the Framework does not:

- detail these aspects of DTF's role
- explain how DTF's and the Risk Committee's advising responsibilities relate to each other.

DTF and the Risk Committee review the Framework periodically. But they have not evaluated its effectiveness or established a process to do this.

Communicating to the government and the community

Under the Framework, agencies are responsible for managing SSRs and reporting them to the Risk Committee and the Victorian Secretaries' Board (the Secretaries' Board).

The Risk Committee coordinates an annual report for the Assistant Treasurer on the Victorian Government risk environment. But the report does not include information on the status and maturity of risk management arrangements for each SSR, including if they are effective.

The Framework does not explain which agency or agencies are responsible for coordinating information about SSRs for the community, so the community is not informed about all SSRs.

Key finding 2: DTF, the Insurance Authority and the Risk Committee have not met all their obligations to advise the government on SSRs

DTF's advice on SSRs' financial implications DTF advises the Treasurer and Assistant Treasurer on budget priorities and financial implications for the state's financial and resource management considerations.

But it does not link this advice with the Risk Committee's information about the financial impacts of SSRs. This is a missed opportunity.

Agencies' advice to the Assistant Treasurer on SSRs DTF advises the Assistant Treasurer on how current the Framework is but not on how effective it is. The Insurance Authority largely meets its advice obligation under the *Victorian Managed Insurance Authority Act 1996* (the Insurance Authority Act). It advises the Assistant Treasurer on risk management directly and on SSRs through the Risk Committee.

It told us that it would advise separately on SSRs if it had a differing view to DTF, but that this has not occurred.

The Insurance Authority does not advise the Assistant Treasurer on the maturity of the public sector's arrangements to manage SSRs, even though it can access this information.

The Risk Committee provides the Assistant Treasurer with an annual update on SSRs. But the Risk Committee does not advise the Assistant Treasurer on SSR management and how effectively agencies coordinate this at the statewide level.

Key finding 3: The way departments identify SSRs lacks rigour and they do not coordinate SSRs at statewide level

The departments' process to identify SSRs Departments collaborate through the Risk Committee to identify and describe SSRs. But the Risk Committee's process lacks rigour. It does not define:

- whole-of-government objectives
- criteria to determine which risks are state-significant.

Without these, departments cannot demonstrate that the risks the Risk Committee includes on its SSR list are of greatest significance to the state.

The Risk Committee also does not have a clearly defined statewide risk appetite statement. This means the advice departments provide to their ministers on SSRs does not consider the level of risk the state is willing to accept.

The Risk Committee does not guide departments on how to describe SSRs. Because of this, departments have not clearly or consistently communicated what the risks are.

The departments' approaches to managing SSRs All 10 departments are working to manage their individual agency risks and meet their own responsibilities.

But only DFFH has checked whether it is appropriately managing the statewide implications of all the SSRs it leads.

The other departments that lead SSRs have missed the opportunity to confirm if their existing risk management arrangements appropriately address statewide implications.

Departments do not coordinate any consolidated information on the progress or effectiveness of risk management across all SSRs.

This means departments have also missed the opportunity to develop a shared understanding of how well they collectively manage the state's risk profile of all SSRs.

1. Context

The Framework sets out minimum requirements and guidance for individual agencies to manage their own risks. It also sets out the arrangements for agencies to manage risks they share with others, including SSRs.

The Framework describes SSRs and agency roles and responsibilities for coordinating their responses. It sets out the roles and responsibilities for 2 cross-agency coordinating groups – the Risk Committee and the Secretaries' Board.

The Framework

SSRs

The Framework describes SSRs as risks that can have material impacts at statewide level on the:

- community
- government
- private sector.

It explains that all SSRs are shared between multiple agencies.

In 2023, the Risk Committee identified 22 SSRs (see Appendix D). These form the state's risk profile.

Victoria has already experienced some of these risks at statewide level.

| SSRs in the last 5 years such as ... | Have had economic implications for Victoria including ... |
|--|--|
| the COVID-19 pandemic between 2020 and 2022 | the government borrowing \$31.5 billion to fund its COVID-19 response (reported in DTF's 2023 <i>Victorian Budget 2023–24 Doing what Matters: COVID Debt Repayment Plan</i>). |
| the 2019–20 Black Summer bushfires | an estimated \$2.1 billion in economic costs to Victoria, for example, through infrastructure damage and international tourism losses (reported in DTF's June 2021 article in <i>Victoria's Economic Bulletin: Volume 5</i> on 'The economic impacts of the 2019–20 bushfires on Victoria'). |
| cyber incidents, such as the 2023 breach of Court Services Victoria's data | an estimated \$8.7 billion a year in costs to the state's finances and economy for all cyber incidents (noted by the Department of Government Services (DGS) in the Risk Committee's 2023 State Significant Risk Scan report). |

The Framework explains that identifying and managing SSRs is important to provide confidence to the government and the community that:

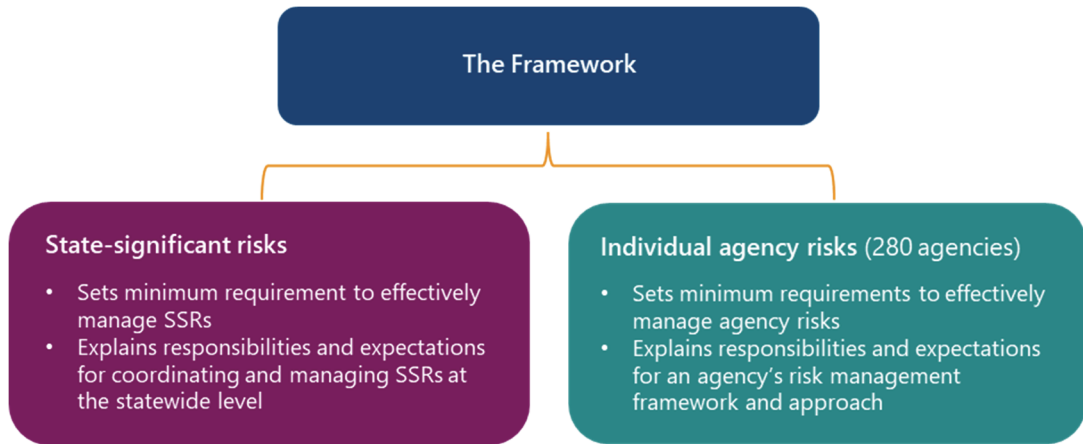
- these risks are being managed
- there is a clear line of sight over them.

Purpose of the Framework

The Framework focuses on 2 levels of risk management, as Figure 1 shows. It:

- sets statewide guidance for all agencies to manage shared risks and SSRs
- requires all agencies to establish individual frameworks to manage their own risks.

Figure 1: The Framework's focus



Source: VAGO, based on the Framework.

In the Framework's foreword, the Assistant Treasurer sets the expectation that agencies' whole-of-government approach to SSRs will be 'the hallmark of joined-up service delivery'.

In 2023, the Framework applied to around 280 agencies.

Roles and responsibilities

The Framework's foreword says that it sets clear directions on the management and responsibility of shared risks and SSRs. These include:

- requiring greater interagency collaboration and coordination
- allocating coordination roles to the Risk Committee and Secretaries' Board for these risks.

Relevant legislation

Financial Management Act 1994

The *Financial Management Act 1994* sets the public sector's financial management accountability, reporting and administration obligations.

It requires each agency to develop, implement and keep a risk management strategy under review.

The *Standing Directions 2018 under the Financial Management Act 1994* (2018 Directions) support the *Financial Management Act 1994*. Together these form the core of the state's financial management framework.

The 2018 Directions establish:

- the standards of financial management expected of agencies
- DTF as the central agency to support the Treasurer and Assistant Treasurer on whole-of-state financial administration and performance.

The 2018 Directions require agencies to comply with 3 supporting frameworks that set further obligations. These are the:

- Framework
- *Asset Management Accountability Framework*
- *Resource Management Framework*.

The 2018 Directions also require agencies to report on material compliance deficiencies through their annual reports.

*Victorian
Managed
Insurance
Authority Act
1996*

The Insurance Authority Act sets up the Insurance Authority to support the Assistant Treasurer.

It also details the Insurance Authority's responsibilities to:

- monitor, advise and train departments and participating bodies in risk management
- provide insurance and support to departments and participating bodies
- advise the state on risk management.

The Insurance Authority considers that the state includes the Assistant Treasurer and its insurance clients.

2.

SSR responsibilities under the Framework

The Framework does not sufficiently explain what individual agencies need to do to manage SSRs they share with others. It lacks detail on what they should include in their own risk management frameworks and what they need to do when they take a lead role for an SSR.

The Framework does not clarify what the Risk Committee and the Secretaries' Board need to do to support agencies or to advise government on SSRs. It also does not explain what DTF, the Department of Premier and Cabinet (DPC) and the Insurance Authority need to do for SSRs.

The Framework's guidance on agencies' roles and responsibilities is unclear

Individual agency responsibilities

The Framework says that each agency:

- has a mandatory requirement to contribute to identifying and managing SSRs as appropriate
- should clearly demonstrate in its risk management framework how it addresses SSRs relevant to its operations.

But the Framework does not provide guidance on what agencies need to do to achieve this.

DTF told us that it designed the Framework to set minimum requirements and give agencies flexibility in how they meet the requirements.

This means the approximately 280 agencies the Framework applies to, consistent with the *Financial Management Act 1994*, must individually interpret its requirements.

In a 2022 Risk Committee survey, agencies said they needed clearer expectations, more guidance and examples to support them to manage SSRs.

As the central agency responsible for the Framework, DTF has not addressed this need.

The Insurance Authority released guidance in 2023 on techniques for managing SSRs. The Risk Committee planned to provide further guidance and tools in 2023, but it has yet to do so.

Of 10 departmental risk registers, only the Department of Education (DE) and the Department of Environment and Climate Action (DEECA) identify all their lead and contributing roles for managing SSRs, as Figure 2 shows.

Figure 2: How the 10 departments apply SSRs in their risk registers

| Department risk register element | Departments with this element (out of 10 departments) |
|--|--|
| Includes SSRs | 9 |
| Links SSRs to the department's strategic risks | 6 |
| Identifies all its lead and contributing roles for SSRs | 2 |
| Identifies portfolio agencies that contribute to or are affected by SSRs | 0 |

Source: VAGO, from departments' information.

Of the 10 departments, only DFFH has fully considered how to incorporate all the SSR requirements into its own risk management framework. DFFH's framework has all the elements in Figure 3.

The other 9 departments' guidance does not consistently describe how to identify and escalate SSRs. Their guidance also does not describe how the departments fulfil the lead and contributing roles for an SSR, as Figure 3 shows.

Figure 3: How the 10 departments explain SSRs in their guidance to their staff

| Department risk management framework element | Departments with this element (out of 10 departments) |
|--|--|
| Refers to SSRs | 10 |
| Explains how to identify potential SSRs | 1 |
| Shows how to escalate potential SSRs to senior managers and the Risk Committee | 5 |
| Describes how to fulfil both the risk lead and contributing agency roles | 1 |

Source: VAGO, from departments' information.

During our audit, 6 departments acknowledged the gaps in their risk management frameworks that we identified and had started or committed to addressing them. These are:

- DE
- DEECA
- the Department of Health (DH)
- the Department of Justice and Community Safety (DJCS)
- the Department of Jobs, Skills, Industry and Regions (DJSIR)
- the Department of Transport and Planning (DTP).

Lead agency responsibilities

The Framework sets out individual agencies' responsibilities to coordinate risk responses to SSRs. It says agencies need to contribute to identifying and managing SSRs as appropriate and agree on:

- which of them will lead each SSR
- the lead agency's responsibilities
- the responsibilities of other contributing agencies.

But the Framework does not provide sufficient guidance on what agencies need to do in these roles.

| The Framework ... | But it does not explain ... |
|---|---|
| indicates a lead agency will have added responsibilities for managing SSRs | what this involves, particularly because the Framework makes each agency responsible for managing its own risks. |
| requires each agency to define and review its risk appetite at least annually, which helps it to target resources to risks it is not prepared to accept | <p>how agencies determine the state's risk appetite for SSRs when each contributing agency may have a different appetite.</p> <p>what the lead agency's role is for this.</p> |

DTF told us it intentionally did not design the Framework to describe whole-of-government arrangements for coordinating, managing and overseeing SSRs or to make the Framework prescriptive.

It said this allows agencies to consider risks from their own complexity, size and risk profile rather than from a shared, statewide level.

But the Risk Committee has observed this can:

- create uncertainty for agencies about who is accountable and who has authority to act across agency responsibilities
- slow or prevent agencies from adopting a truly whole-of-government perspective on SSRs.

As a result, agencies work through their own individual risk management frameworks. And there are gaps in how they work together at a statewide level to manage SSRs. We discuss this further in Sections 3 and 4.

Key agency roles and responsibilities The Framework identifies the key agency roles for DTF, the Insurance Authority and DPC. But the Framework does not detail how these roles relate to SSRs.

| The Framework states that ... | But it does not ... |
|--|---|
| <p>DTF:</p> <ul style="list-style-type: none"> • maintains and updates the Framework to ensure that it aligns with best practice • advises the government on policies relating to risk management and insurance • fills the role of the Risk Committee's secretariat. | <p>describe how DTF's central agency role set out in the 2018 Directions relates to SSRs, including its responsibility to advise the:</p> <ul style="list-style-type: none"> • Assistant Treasurer on how current and effective the state's financial management framework is • Treasurer and Assistant Treasurer about statewide financial and resource management issues, risks and strategies. |
| <p>the Insurance Authority:</p> <ul style="list-style-type: none"> • acts as an insurer • monitors agencies' risk management maturity and capability • advises the Victorian public sector and the government on risk management. | <p>explain how the Insurance Authority's role relates to SSRs, including to:</p> <ul style="list-style-type: none"> • provide insurance to the Victorian public sector • monitor risk management maturity and capability • advise the government on risk management. |
| <p>DPC has a pivotal role in managing SSRs by supporting the Premier on government-wide issues.</p> | <p>explain how DPC's role to support the Premier on government-wide issues relates to SSRs.</p> |

DTF fulfils its responsibilities to maintain and update the Framework and be the Risk Committee's secretariat. But it does not meet its obligations to advise the Assistant Treasurer.

We discuss what advice the Assistant Treasurer receives on SSRs in Section 3.

The Risk Committee's role

The Risk Committee supports agencies to coordinate information, action and advice on SSRs. But it has not fulfilled all of its responsibilities.

During our audit, DTF acknowledged that the Framework's explanations of some Risk Committee responsibilities are not appropriate and could be reviewed.

The Framework and the Risk Committee's 2018 terms of reference explain that the Risk Committee has 4 key responsibilities to:

1. support agencies to identify key shared risks and SSRs
2. support agencies to develop and operate effective whole-of-government risk management frameworks related to those risks
3. determine the lead agency for an SSR when individual agencies have failed to do so
4. advise the government (through the Assistant Treasurer) on the effectiveness of the Framework and arrangements to manage SSRs.

The Risk Committee supports agencies to identify SSRs, including preparing an annual report to the Assistant Treasurer that describes the identified SSRs.

But it has not fulfilled its other 3 roles.

In Section 4 we discuss the Risk Committee's support to develop whole-of-government frameworks. In Section 3 we discuss how it advises the government on the Framework and SSRs.

The Risk Committee has concluded it does not have authority to direct agencies to take a lead role for SSRs. So it has not determined a lead agency for one SSR where agencies have failed to do so.

The Secretaries' Board's role

The Framework is not clear on how the Secretaries' Board's role relates to SSRs.

The Framework says the Secretaries' Board:

- oversees the public sector's risk
- supports effective coordination, collaboration and communication between agencies
- receives periodical reports on SSRs.

But departments, the Risk Committee and DPC as the Secretaries' Board's secretariat, do not have consistent views on how the Secretaries' Board's role relates to SSRs.

DPC told us that the Secretaries' Board does not oversee the Risk Committee's work on SSRs because the Risk Committee is not one of the board's subcommittees.

Despite this, the Secretaries' Board oversees aspects of the Risk Committee's work. It has:

- approved the Risk Committee's recommendations on individual SSRs
- endorsed the Risk Committee's risk scan reports, proposed restructure and proposals for in-depth assessments on individual SSRs
- noted the Risk Committee's briefings about its actions related to SSRs.

The Secretaries' Board oversees some individual SSRs that departments lead.

The Secretaries' Board supports agencies to coordinate, collaborate and communicate on SSRs by providing a forum for discussion.

The Framework does not say who is responsible for evaluating its effectiveness

Arrangements for evaluating the Framework's effectiveness

The Framework says that DTF is responsible for maintaining and updating it to make sure it aligns with best practice.

But the Framework does not say who is responsible for evaluating its effectiveness.

In practice, DTF and the Risk Committee are each responsible for evaluating the Framework's effectiveness because:

- the 2018 Directions include a role for DTF to advise the Assistant Treasurer on this
- the Risk Committee's terms of reference say it will advise the Assistant Treasurer on this.

But the Framework does not refer to either role.

DTF and the Risk Committee have reviewed the Framework periodically. And DTF monitors agencies' information about whether they comply with the Framework's mandatory requirements.

But this work has not evaluated the Framework's effectiveness for guiding agencies to identify and manage SSRs.

The Framework does not explain agencies' responsibilities to communicate SSR arrangements to the government and the community

Reporting arrangements within government

The Framework says:

- an agency is responsible for reporting on its individual and shared risks to its minister
- an agency's approach for managing SSRs should include appropriate monitoring and reporting to the Risk Committee and the Secretaries' Board.

We found that departments report to their ministers, the Risk Committee and the Secretaries' Board on SSRs.

The Risk Committee is responsible for reporting annually to the Assistant Treasurer on the Victorian Government risk environment.

Its terms of reference do not explain what this could include. They refer to the Risk Committee advising on:

- the status of SSRs
- how agencies manage SSRs
- if this is mature and effective
- ways to address any gaps identified.

We found the Risk Committee reports on the risk environment, including key actions to manage SSRs. But it does not include information on maturity, effectiveness or how to address the mitigation gaps that departments identify for SSRs. We discuss this in Section 3.

Informing the community

The Framework says that identifying and managing SSRs is important to provide confidence to the community that:

- agencies are managing these risks
- agencies have a clear line of sight over them.

But the Framework does not say which agencies are responsible for communicating to the community about SSRs. This could include information such as what the SSRs are and their oversight, coordination and management.

DTF told us that it was never the Framework's intent to explain to the community what Victoria's SSRs are and what the state is doing to manage them.

It said each lead agency is responsible for determining how they communicate with the community on the individual risks they lead.

Some agencies do communicate about the individual risks they lead in a coordinated way.

For example, DJCS is the lead agency for the statewide emergency SSR. In 2020 it published its third *Emergency risks in Victoria* report. This reports on the results of the state-level emergency risk assessment and the arrangements in place to manage them.

Agencies do not coordinate whole-of-government communications to inform the community about all SSRs.

3. Advice on SSRs to relevant ministers

DTF does not link its budget advice to the Treasurer and Assistant Treasurer with the financial implications of SSRs. Only DGS and DPC have linked their budget submissions to SSRs since 2019. This is a missed opportunity to inform government of SSRs' implications for Victoria.

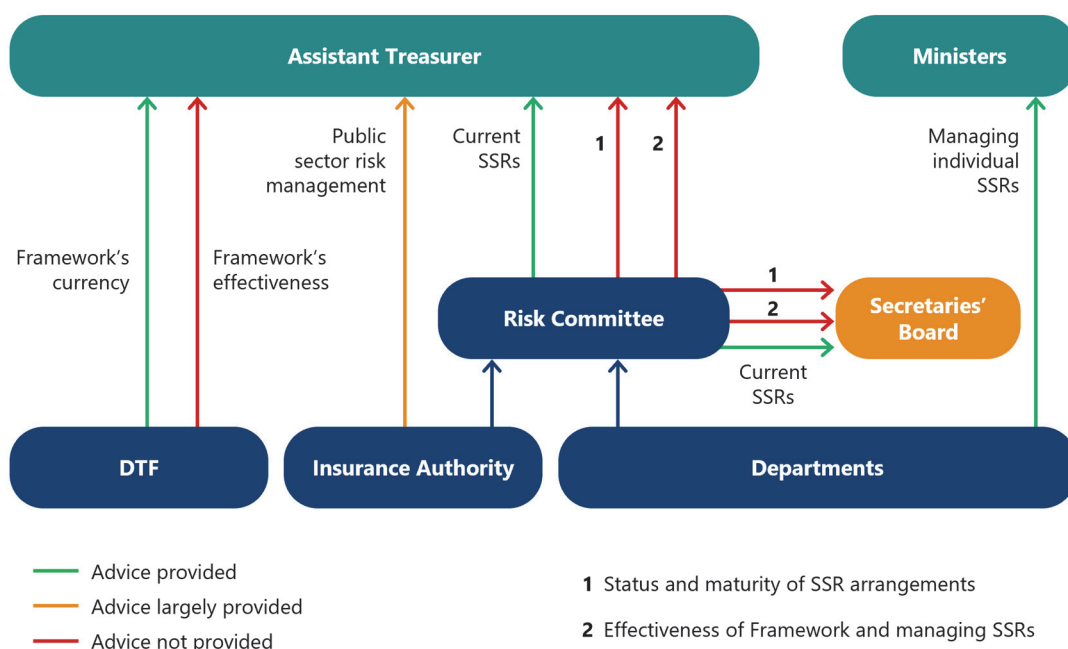
DTF has not met its obligation to advise the government on the Framework's effectiveness. And the Risk Committee has not advised on the status, maturity and effectiveness of risk management arrangements for SSRs. The Insurance Authority does not inform the government on the maturity of Victoria's SSR management arrangements.

Advice arrangements

The Framework and Risk Committee's terms of reference establish how DTF, the Insurance Authority and departments (through the Risk Committee) give advice on SSRs to their relevant ministers.

But DTF, the Insurance Authority and the Risk Committee do not meet all their advice obligations for SSRs, which Figure 4 shows.

Figure 4: Advice obligations related to SSRs



Note: The blue arrows connecting the Insurance Authority and departments to the Risk Committee represent their roles as committee members. Members contribute information that the Risk Committee uses to form its advice. But they do not have specific responsibilities to advise the Risk Committee.

Source: VAGO, based on responsibilities in the Framework, 2018 Directions and the Risk Committee's terms of reference.

DTF does not advise the Assistant Treasurer and Treasurer on budget priorities and financial implications of SSRs

DTF's advice on the financial implications of SSRs

DTF advises the Assistant Treasurer and Treasurer on budget priorities and financial implications for the state's consideration.

But it does not link this advice and the Risk Committee's information, which shows all SSRs in 2023 had potential financial implications for the state. This is a missed opportunity.

The 2018 Directions say DTF is the central agency that supports the Assistant Treasurer and Treasurer on the state's financial management. This includes advising them about statewide financial and resource management issues, risks and strategies.

DTF says it provides financial advice related to SSRs through the state's budget process rather than through the Risk Committee.

The budget process requires agencies to assess risks relating to their budget requests. But these risks usually refer to anticipated concerns from stakeholders. Not how the budget submission responds to an SSR.

DTF does not ask agencies to highlight SSRs in their budget submissions. And DTF does not advise the Treasurer and Assistant Treasurer on the implications that all SSRs have for the state Budget.

Departments are also not all linking their budget bids and submissions to SSRs. Only DGS and DPC linked their budget submissions to an SSR between 2019 and 2023.

This means the Assistant Treasurer and Treasurer are missing key information to guide their policy and investment decisions.

DTF, the Insurance Authority and the Risk Committee do not meet all their obligations to advise the Assistant Treasurer on SSRs

The Insurance Authority's advice on Victoria's risk management

The Insurance Authority Act says the Insurance Authority is responsible for advising the government on risk management.

The Insurance Authority largely meets this obligation.

We looked at the general risk management advice the Insurance Authority provides. Its regular meetings with the Assistant Treasurer include general risk management advice related to risk prevention, although they focus more on insurance.

We also looked at its advice on SSRs.

| We examined the Insurance Authority's advice on ... | Because ... |
|--|--|
| SSRs | the Insurance Authority is on the Risk Committee and supports agencies to manage SSRs. |
| the maturity of agencies' arrangements to manage SSRs | the Framework says the Insurance Authority will monitor maturity, which includes capability. |

The Insurance Authority advises the Assistant Treasurer about SSRs through its work with, and advice to, the Risk Committee. It told us that it would directly advise the Assistant Treasurer on SSRs when it has a differing view to DTF, but that this has not occurred.

It has not told the government how mature Victoria's risk management arrangements are to identify and manage SSRs, even though it can access this information.

The Insurance Authority monitors risk management maturity. It does this by providing an online, voluntary self-assessment tool for agencies to assess their maturity.

There are limitations to this data, so the Insurance Authority converts it into an overall maturity index. But it does not extract maturity information specific to SSRs.

DTF's advice on the Framework

As the central agency responsible for the Framework, DTF advises the government on how current the Framework is.

But it does not say how effective the Framework is as the statewide risk management framework for Victoria.

DTF last advised the Assistant Treasurer on how current the Framework is when it sought their approval to update it in 2020. DTF amended the Framework to highlight the need for more cross-agency collaboration and coordination.

The amended Framework referred to the Risk Committee for the first time, even though the Assistant Treasurer established it in 2012. It also introduced the role of a lead agency for individual SSRs.

DTF does not evaluate the Framework's effectiveness, as we discuss in Section 2. DTF says it fulfils its obligation to advise the Assistant Treasurer on the Framework's effectiveness through its Risk Committee secretariat role.

But the Risk Committee does not provide this advice either.

DTF and the Risk Committee review the Framework periodically and DTF monitors agencies' compliance with it.

But they have not evaluated the Framework's effectiveness for guiding agencies to identify and manage SSRs. For example:

- the Framework asks agencies to collaborate, coordinate and communicate to manage SSRs. But DTF has not checked if this is happening
 - consistent with the findings in our 2013 audit, reported compliance with the Framework gives the government a false sense of security about SSRs. This is because compliance is not a good indicator of how well agencies identify and manage these risks.
-

Departments' advice to the Assistant Treasurer through the Risk Committee

DTF is the Risk Committee secretariat and chair. But it has not made sure the Risk Committee fulfils its obligations to advise the government on SSRs.

The Risk Committee's terms of reference say the Risk Committee will advise:

- the government on the Framework's development, operation and effectiveness
- the Assistant Treasurer on the most significant risks to present to Cabinet for discussion at least annually.

| The Risk Committee's terms of reference say its advice will focus on... | Which includes ... |
|--|---|
| SSRs and how agencies manage them from a whole-of-government perspective | <ul style="list-style-type: none"> • escalating SSR matters where appropriate • reporting any substantial gaps in arrangements for managing and reducing SSRs • engaging with the Secretaries' Board about ways to reduce SSRs where the Risk Committee identifies these gaps. |
| the status and maturity of risk management arrangements across the public sector | <ul style="list-style-type: none"> • if agencies have appropriate, effective whole-of-government risk management frameworks and policies for SSRs • if agencies regularly review the risk environment to identify where further action is required • if lead agencies effectively coordinate SSR management. |

As the Risk Committee secretariat, DTF has not made sure the Risk Committee's annual reporting to the Assistant Treasurer on SSRs provides this advice.

The reports describe:

- each SSR
- its rating
- the agencies that share the risk
- key risk control actions and mitigation gaps for each SSR.

But they do not advise how effectively agencies manage SSRs and the need for further action. For example, in its 2023 State Significant Risk Scan report, the Risk Committee:

- rated 11 of the 22 SSRs as having the highest risk rating
- identified that over half of the SSRs had increased in significance since 2021
- classified all 22 SSRs as needing additional focus, work or oversight.

DTF did not advise the Assistant Treasurer about aspects such as if:

- the risks that rated significant or had a rating increase are being managed appropriately
- any SSR needed further action, including to address the mitigation gaps listed for each risk
- agencies have effective, whole-of-government risk frameworks, policies and arrangements in place to manage SSRs.

4.

Identifying and managing SSRs

Departments collaborate through the Risk Committee to identify and describe SSRs. But the processes departments use to determine SSRs lack rigour.

All departments have programs and reforms to manage their organisational risks and responsibilities. This includes coordinating with other agencies on shared risks. But only DFFH has checked that its work appropriately manages the statewide implications of the SSRs it leads.

Departments collaborate through the Risk Committee to review the arrangements for managing SSRs each year. But they do not coordinate any information on the implementation or effectiveness of risk management across all SSRs.

Departments collaborate to identify SSRs

Departments' approach to identifying risks

All departments have processes in place to identify and assess risks to their own objectives. Only DE, DEECA and DFFH could show they considered how the Risk Committee's list of SSRs influenced the way they identified their own risks.

Departments' process to collaborate with other agencies

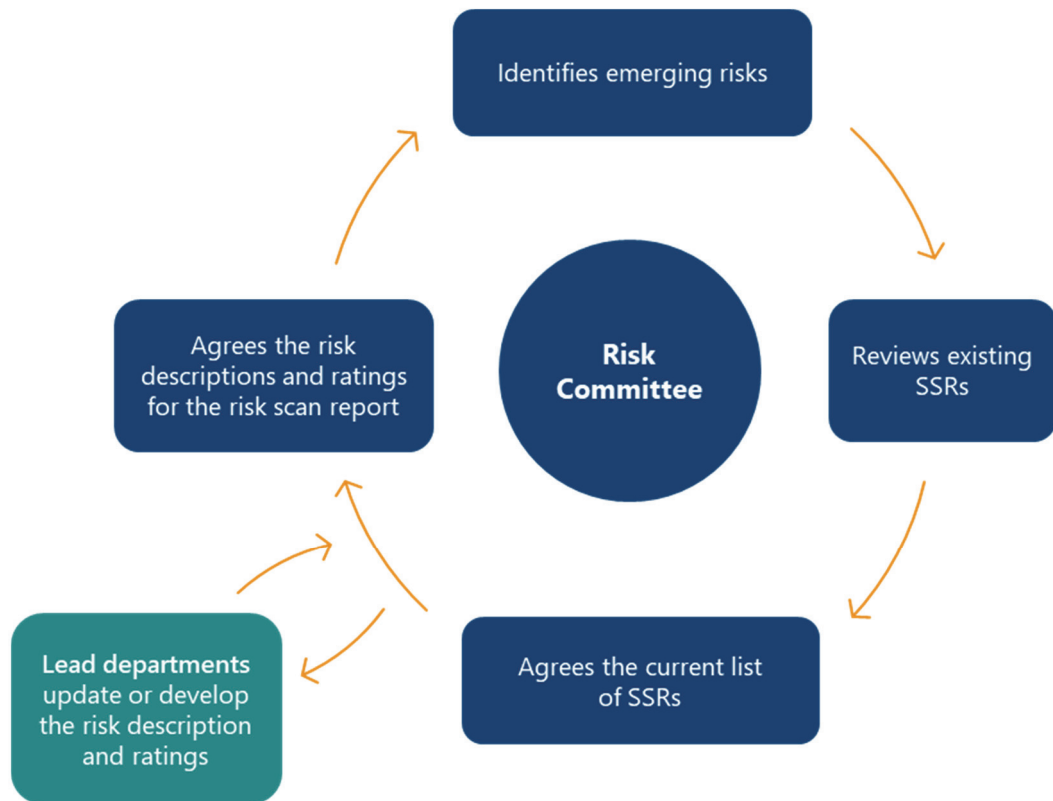
Departments collaborate through the Risk Committee to identify SSRs and prepare an annual risk scan report. This includes a:

- list of all SSRs departments identify and priority SSRs
- description of each SSR
- heatmap comparing SSR ratings based on their likelihood and consequence ratings.

The Risk Committee agrees to a list of SSRs each year. As Figure 5 shows, the process involves reviewing SSRs from the previous year and considering new emerging risks. The Risk Committee also updates risk descriptions and ratings.

DTF, the other Risk Committee members and their agencies have roles to support this work.

Figure 5: Risk Committee approach to agreeing on the annual SSR risk scan



Source: VAGO, based on Risk Committee information.

As the Risk Committee secretariat, DTF has continually improved the Risk Committee’s annual risk scan process. This includes involving the Insurance Authority and departments more in identifying emerging risks since 2022.

The process departments use to determine and describe SSRs lacks rigour

Whole-of-government and statewide objectives

The Risk Committee has not identified which whole-of-government or statewide objectives SSRs relate to.

The Framework does not define statewide objectives to help agencies identify and assess if risks to achieving those objectives are state-significant.

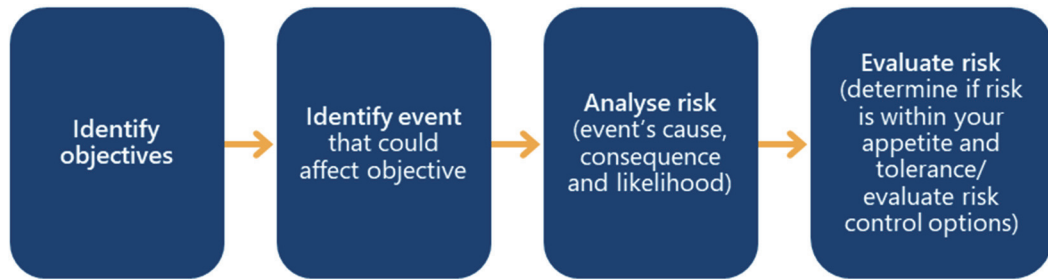
DTF considers that the development of statewide objectives is inconsistent with the current legislated model of risk management, which allocates responsibility for managing risks to individual agencies.

Without defined whole-of-government objectives, agencies do not have a shared basis to identify potential SSRs. Instead, they identify and assess SSRs according to their own objectives.

This is despite the Insurance Authority guidance highlighting that SSRs go beyond the objectives of a particular organisation or even a single government.

The Insurance Authority guides agencies on how to identify and evaluate their risks. The first step is to identify objectives, as Figure 6 shows.

Figure 6: Process to identify risks



Source: VAGO, based on the Insurance Authority's guidance.

Risk appetite at the whole-of-government level

The Risk Committee and lead agencies have not defined the risk appetite for each or all SSRs at the whole-of-government level.

The Framework requires each agency to define and review its risk profile and risk appetite at least annually.

It says that agencies should define their risk appetite by considering their strategic objectives, risk profile, and risk and reward trade-offs.

But the Framework does not explain how agencies should define the risk appetite for each or all SSRs at the whole-of-government level.

The *ISO 31000:2018 Risk Management – Guidelines* (the Risk Standard) and Insurance Authority guide organisations to use risk profiles and appetites to:

- understand the level of risk they are willing to accept
- identify the best risk response options.

One department told us that without a clearly defined and communicated statewide risk appetite statement, it cannot demonstrate how it has considered the risk appetite requirement for its shared SSRs.

Criteria to determine what an SSR is

DTF, as the central agency responsible for the Framework, and the Risk Committee have not set criteria to determine when a risk becomes an SSR.

The Insurance Authority and representatives for Risk Committee members developed criteria to guide their 2021 assessment of which risks were state-significant. The Insurance Authority's 2023 guide *Contributing to state significant risk* includes these criteria.

But the Risk Committee has not adopted the criteria.

DTF told us that the Risk Committee considers existing and emerging risks of state-significance to identify SSRs. And that the Risk Committee relies on its members and their agencies' input and judgement.

But DTF could not show us the basis for the Risk Committee's judgements or how it selected SSRs for its list in 2023.

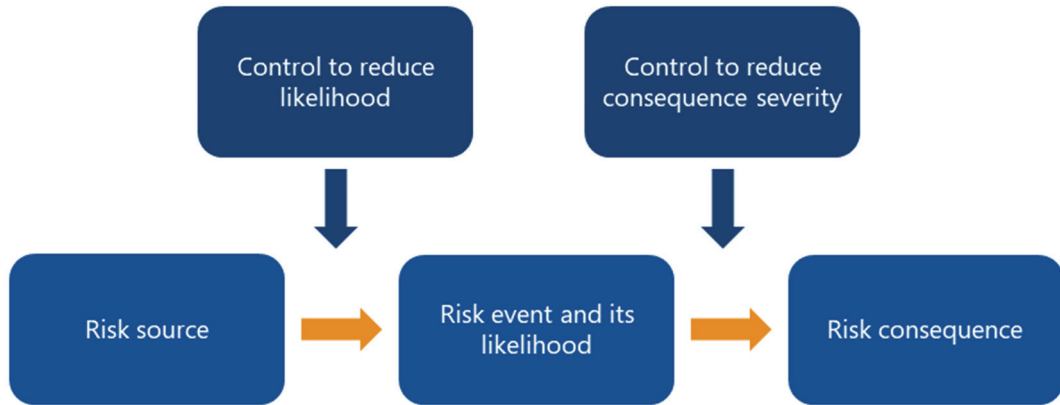
Describing SSRs

The Risk Committee's template to describe SSRs lacks rigour because it does not require departments to consistently identify the elements involved in describing a risk.

The Risk Standard guides agencies on the different elements of a risk description, as Figure 7 shows. These include the risk source, event and likelihood, and consequence.

Organisations can respond by introducing controls to reduce a risk's likelihood or the severity of its consequence.

Figure 7: Risk description elements



Source: VAGO, based on the Risk Standard.

The SSRs on the Risk Committee’s list are a mix of risk events, risk sources and failures of risk controls. This makes it difficult for agencies that share SSRs to:

- understand the SSR and its implications
- identify opportunities to manage them
- evaluate if controls are effective.

Only DFFH checks if it appropriately manages the statewide implications of all SSRs it leads

Departments' approaches to managing SSRs they lead

All departments are working to manage their organisational risks and to meet their organisational responsibilities.

This work includes programs, reforms and, where appropriate, arrangements to coordinate with other agencies. Some of this work relates to risks that are on the Risk Committee’s SSR list.

But only DFFH has checked if it appropriately manages the statewide implications of all the SSRs it leads.

DFFH formally reviewed how it manages 2 of its strategic risks that are also the 2 SSRs it leads or co-leads. It aimed to confirm if it appropriately manages its own strategic risks and the SSRs’ statewide risk implications. It involved or consulted with other affected departments during these reviews.

DFFH found opportunities to improve how it manages the SSRs’ statewide implications through better cross-agency coordination and risk controls.

The Framework does not explain lead agencies’ responsibilities for SSRs, including determining how effective management arrangements are.

DFFH has acted despite this lack of guidance. The other departments that lead SSRs have missed the opportunity to confirm if their arrangements for managing SSRs are appropriately addressing statewide risk implications.

Departments do not have a shared understanding of how well they are managing all SSRs

Departments' coordination at statewide level for all SSRs

Some departments coordinate monitoring of SSRs they lead.

In April 2024, DFFH shared with the Risk Committee its review of the SSRs it leads. The review included information on its risk controls' effectiveness and the progress of risk treatments.

The other 8 departments that lead SSRs do not coordinate any information through the Risk Committee on how well they are managing SSRs.

This means they have missed the opportunity to develop a shared understanding at a statewide level of whether their risk management arrangements are working effectively.

Appendices

[Appendix A: Submissions and comments](#)

[Appendix B: Abbreviations, acronyms and glossary](#)

[Appendix C: Audit scope and method](#)

[Appendix D: Victoria's 2023 list of SSRs](#)

Appendix A:

Submissions and comments

We have consulted with all 10 departments and the Victorian Managed Insurance Authority, 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 agency head.

Responses received

| Agency | Page |
|--|------|
| Department of Education | A-2 |
| Department of Energy, Environment and Climate Action | A-3 |
| Department of Families, Fairness and Housing | A-4 |
| Department of Government Services | A-5 |
| Department of Health | A-7 |
| Department of Justice and Community Safety | A-8 |
| Department of Jobs, Skills, Industry and Regions | A-9 |
| Department of Premier and Cabinet | A-10 |
| Department of Treasury and Finance | A-11 |
| Department of Transport and Planning | A-16 |
| Victorian Managed Insurance Authority | A-17 |

Response provided by the Secretary, Department of Education



Department of Education

Secretary

2 Treasury Place
East Melbourne Victoria 3002
Telephone +61 3 9637 2000

COR24139993

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

Dear Mr Greaves

Proposed report: Managing state significant risks

Thank you for your letter of 22 May and the opportunity to comment on the proposed report for this audit.

The department is committed to working collaboratively to identify state significant risks and to implement strategies to manage these risks. The department has reviewed the proposed report and has no feedback.

Should your office wish to discuss the department's response, they can contact Shamiso Mtenje, Executive Director, Assurance, Knowledge and Executive Services on [REDACTED] or [REDACTED].

Yours sincerely



Jenny Atta
Secretary
06 / 06 / 2024

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





Department of Energy, Environment
and Climate Action

PO Box 500, East Melbourne,
Victoria 8002 Australia

SEC-240500484

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

Dear Andrew

Thank you for your email of 22 May 2024 enclosing the proposed report for the Victorian Auditor-General's Office (VAGO) performance audit on *Managing state-significant risks*.

The Department of Energy, Environment and Climate Action (DEECA) appreciates the work of your office in conducting this audit and is committed to working with VAGO to address issues identified through your program of performance audits.

As you are aware, DEECA currently leads the management of four state significant risks that focus on the physical impacts of climate change, a critical loss of biodiversity, the transition to renewable energy, and the impacts of the transition to a low-carbon economy. In leading the management of these risks, DEECA collaborates and coordinates extensively with other agencies and key stakeholders. DEECA also makes a significant contribution to the management of state significant risks led by other departments, particularly the management of the statewide emergency risk (given the department's role in emergencies impacting the environment, agriculture water and energy sectors).

DEECA welcomes the opportunity to contribute to a review of the Victorian Government Risk Management Framework and will review and update the approach DEECA takes to the management of state significant risks as necessary following the implementation of actions to address recommendations arising from this audit.

Thank you for the opportunity to provide this submission. Should you require any further information, please contact Bronwyn Clarke, Acting Executive Director, Strategy and Performance, DEECA, at [REDACTED]

Yours sincerely

[REDACTED]
John Bradley
Secretary

5/06/2024



Official - Sensitive

Response provided by the Secretary, Department of Families, Fairness and Housing



Secretary

Department of Families, Fairness and Housing

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Telephone: 1300 475 170
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www.dffh.vic.gov.au

BAC-EOB-371

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

Dear Mr Greaves

Thank you for your letter of 22 May 2024, and for providing the Department of Families, Fairness and Housing an opportunity to respond to the proposed report for *Managing State Significant Risks*.

The department is pleased the report recognises DFFH's achievements and commitment to effectively managing State Significant Risks. DFFH remains committed to supporting the work of the Risk IDC and to working productively with all lead and contributing agencies on managing State Significant Risks.

I would like to take this opportunity to thank your staff who worked on this audit.

Yours sincerely



Peta McCammon
Secretary

29 / 05 / 2024



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Department of Government Services

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1 Macarthur Street
East Melbourne Victoria 3002
Telephone: (03) 9651 5111
dgs.vic.gov.au

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

By email: [REDACTED]

Dear Auditor-General

Thank you for your letter dated 22 May 2024, providing the opportunity to make a submission to the *Managing State Significant Risks* Proposed Report.

Although there were no specific actions for the Department of Government Services (DGS), the report highlights opportunities for further guidance to enable departments to enhance their processes and procedures in identifying, managing, and reporting on State Significant Risks.

The establishment of DGS has supported a strong focus on managing and coordinating efforts to mitigate and respond to cyber and digital risks across government. As you will be aware, the department has a dedicated focus on accelerating digital transformation and plays a critical role in ensuring government is prepared for existing and emerging digital and cybersecurity challenges.

Since its establishment in January 2023, the department has undertaken work to enhance government's digital and cyber risk awareness and capability and to strengthen effective cross-government processes and guidance.

This includes convening cross-departmental and agency governance forums to share insights, learning and best practices related to digital and cyber opportunities and risks.

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Notable examples of these governance forums include the Chief Data Officer Leadership Group, Chief Information Officer Leadership Team, and Victorian Government Cyber Security Leadership Team as well as DGS' participation in the State Significant Risk Interdepartmental Committee, convened by the Department of Treasury and Finance.

Should your office require further information, please contact Simone Millen, Director, Governance on [REDACTED]

Yours sincerely

[REDACTED]
Jo de Morton
Secretary

05 / 06 /2024

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Response provided by the Secretary, Department of Health



Secretary

Department of Health

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www.health.vic.gov.au
DX 210081

BAC-CO-46639

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

Via e-mail: [REDACTED]

Dear Mr Greaves

Thank you for providing the proposed report regarding the Victorian Auditor-General's Office (VAGO's) *Managing State-Significant Risks* performance audit.

My department acknowledges the findings and has no further submissions or comments to provide.

My department notes there are no recommendations directed to the Department of Health, and we are working to further develop internal processes to improve collaboration, coordination, and management of State-Significant Risks with other Victorian agencies.

Further queries relating to this audit can be directed to Leora Grey, Acting Chief Audit and Risk Officer at [REDACTED]

Your sincerely

[REDACTED]

Professor Euan M Wallace AM

Secretary

30/05/2024



Response provided by the Secretary, Department of Justice and Community Safety



Department of Justice and Community Safety

Secretary

121 Exhibition Street
Melbourne Victoria 3000
Telephone: 0429 324 742
www.justice.vic.gov.au

Our ref: 24053000

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

Proposed report: Managing state-significant risks

Dear Mr Greaves

Thank you for your letter of 22 May 2024 providing the proposed report on Managing state-significant risks.

The department is committed to implementing the requirements of the Victorian Government Risk Management Framework to identify and manage state-significant risks. We welcome the findings and recommendations in your report, which will guide the government and our department's ongoing efforts to continually improve management of the risks that could significantly disrupt Victoria's community and economy.

If you have any questions or require further information, please contact Julianne Brennan, Executive Director, Governance and Assurance, on [REDACTED] or via email [REDACTED]

Yours sincerely

Kate Houghton, PSM
Secretary

06/06/2024



OFFICIAL



Department of Jobs, Skills, Industry and Regions

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Telephone: +61 3 9651 9999

Ref: BSEC-2-24-38687

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

Dear Mr Greaves

MANAGING STATE SIGNIFICANT RISKS PERFORMANCE AUDIT PROPOSED REPORT

Thank you for your letter dated 22 May 2024 about the Managing State Significant Risks Performance Audit Proposed Report.

The department notes the proposed report and has no further feedback. The department reiterates its commitment to continually improve capabilities and processes to manage state significant risks.

Thank you for the professional manner in which the audit was undertaken.

If you require further information, your team can contact Karan Gill, Chief Audit Officer on [REDACTED] or [REDACTED]

Yours sincerely

A black rectangular box redacting the signature of Tim Ada.

Tim Ada
Secretary

4/6/2024



Response provided by the Acting Secretary, Department of Premier and Cabinet



Department of
Premier and Cabinet

1 Treasury Place
Melbourne, Victoria 3002 Australia
Telephone: 03 9651 5111
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Mr Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
Level 31, 35 Collins Street
MELBOURNE VIC 3000

BSEC-240500774

Dear Mr Greaves

Thank you for your letter of 22 May 2024 and the opportunity to comment on the proposed *Managing State Significant Risks* audit report.

The Department of Premier and Cabinet (DPC) appreciates the report's findings and the opportunity to build on the State's current management of state significant risks.

DPC will work with the Department of Treasury and Finance to review the Victorian Government Risk Management Framework to clarify responsibilities for state significant risks and to improve guidance to the sector.

Yours sincerely



Jason Loos
Acting Secretary

..3../6../2024

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Department of Treasury and Finance

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D24/80370

Andrew Greaves
Auditor General
Level 31, 35 Collins Street
MELBOURNE VIC 3000



Dear Mr Greaves

PROPOSED REPORT – MANAGING STATE-SIGNIFICANT RISKS

Thank you for the opportunity to respond to your proposed report, which examines whether agencies are working collaboratively to identify and manage state-significant risks (SSRs) and whether the Department of Treasury and Finance (DTF) provides confidence to the Assistant Treasurer and Treasurer on how well agencies manage them.

The DTF response to your report in the form of an Action Plan is attached, which outlines how the Department will seek to implement the recommendations. DTF supports in principle all of the recommendations.

DTF agrees with many elements of the report such as the opportunity to clarify elements of the Victorian Government Risk Management Framework (VGRMF), improving state significant risk management, and clarifying the roles and responsibilities of different parties. DTF considers this an important opportunity to review and potentially revise existing frameworks, the Risk IDC and SSR management principles.

DTF notes that the legislated model of risk management under which the Victorian Government operates explains why many of the VGRMF and Risk IDC processes and documents are designed the way they are. The legislated model places responsibility on individual departments and agencies to determine best risk management approaches and how to implement them. The VGRMF does not provide detailed guidance on what agencies need to do in relation to any of their risks. This allows them to retain flexibility in their risk management approaches. Noting this, DTF will consider what additional guidance material may be appropriate to assist guiding agencies on their roles and responsibilities.

While there is no set schedule for reviewing the VGRMF, DTF periodically reviews and adjusts the VGRMF. It was updated in 2020 following an extensive review in 2019. More recently, a 'pulse check' was undertaken in 2022 to get feedback from agencies on their implementation of the changes. As outlined in the action plan, DTF will consider how to undertake future reviews and engage with departments on continuous improvement. A sunset review clause may be considered as part of any potential updates to the VGRMF.



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Risk management activity for SSRs occurs in departments, although it may not be explicitly labelled as such. The Risk Scan details mitigation activities with the most recent scan including current and planned controls. DTF notes that these activities are considered through budget and Cabinet processes. DTF provides relevant advice through these processes, rather than through the Risk IDC or centrally under the rubric of SSRs. DTF will consider whether there are ways in which these processes can more usefully interact to improve the effectiveness of these processes.

The VMIA is a key stakeholder in supporting the Risk IDC to undertake its work, in addition to providing advice and guidance to government departments on risk management. DTF will work with the VMIA as necessary to support its response to recommendation 4.

While any changes are being implemented, DTF sees value in the Risk IDC continuing to be a forum to help agencies acquit their coordination obligations, share information, and provide a mechanism to assist DTF to develop advice to the Assistant Treasurer about the VGRMF, and state significant risk management more broadly. DTF will consider whether this is a formal role under the VGRMF and look to uplift knowledge on risk management frameworks relevant to SSRs. DTF will also consider how to establish a process to assess the effectiveness of the Framework. This may include additional reviews, such as a review every five years to determine the effectiveness of the framework. DTF will closely engage with the Risk IDC to determine the best approach.

Through the Risk IDC Secretariat, DTF is supporting the IDC to review its current role and purpose and will facilitate the improvement of existing processes. It will consider how to implement potential changes to the IDC and VGRMF with a 1 July 2025 targeted completion date.

Yours sincerely



Chris Barrett
Secretary

31 / 5 / 2024

Attachments encl.: DTF Action Plan

Department of Treasury and Finance action plan to address recommendations from *Managing State-Significant Risks*

| No. | VAGO recommendation | Acceptance | Agreed management actions | Target completion date |
|-----|---|---|---|------------------------|
| 1 | <p>Work with the Department of Premier and Cabinet to revise the Victorian Government Risk Management Framework and its associated guidance to clarify responsibilities for state-significant risks, including for:</p> <ul style="list-style-type: none"> • lead and contributing agencies • central agencies and cross-agency committees • agencies and committees to coordinate reports and advice to government (see Section 2). | <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> In part <input checked="" type="checkbox"/> In principle | <p>DTF recognises opportunities for the continuous improvement of the VGRMF. DTF maintains that under the current legislated (devolved) model, more prescriptive risk management responsibilities in the VGRMF would be unsuitable and reduce the ability for agencies to self-determine best practice for individual complex risks.</p> <p>However, DTF notes that there is scope to provide more information on roles, responsibilities and processes in relation to the management of State-Significant Risks (SSRs).</p> <p>DTF will also consider how to provide additional advice and clarification through the appropriate channels which may include the VGRMF or other guidance material.</p> <p>DTF will consider if existing committees are appropriate as part of any review.</p> <p>DTF will consider updating the VGRMF to formalise the reporting frequency to the Assistant Treasurer on statewide risk management.</p> | 1 July 2025 |
| 2 | <p>Establish and implement a process to assess how effectively the Victorian Government Risk Management Framework addresses state-significant risks and advise the Assistant Treasurer (see Section 3).</p> | <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> In part <input checked="" type="checkbox"/> In principle | <p>DTF will establish a process that assesses the effectiveness of the Framework for SSRs.</p> <p>DTF will continue to seek the views of Risk IDC members on the VGRMF and look to revise the VGRMF as appropriate.</p> | 1 July 2025 |

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Response provided by the Secretary, Department of Treasury and Finance – continued

| No. | VAGO recommendation | Acceptance | Agreed management actions | Target completion date |
|-----|--|---|--|------------------------|
| 3 | Establish and implement a process to identify the implications of all state-significant risks for the state Budget and advise the Treasurer and Assistant Treasurer (see Section 3). | <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> In part <input checked="" type="checkbox"/> In principle | DTF notes this already occurs through budget and Cabinet processes. DTF will consider how else state-significant risks could usefully be considered as part of these processes. DTF will consider how financial implications can be better considered as part of the state significant risk management. This may include: <ul style="list-style-type: none"> • Reviewing current processes. • Reviewing appropriateness of links between SSRs and budget considerations. • Considering alternative approaches. | 1 July 2025 |
| 4 | Establish and implement a process to monitor risk management maturity at statewide level for state-significant risks and advise the Assistant Treasurer (see Section 3). | <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> In part <input checked="" type="checkbox"/> In principle | DTF will support the VMIA in exploring options to improve reporting and other relevant processes as appropriate. | N/A |
| 5 | Revise the process to identify state-significant risks to include: <ul style="list-style-type: none"> • criteria to assess and describe risks • whole-of-government objectives | <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> In part <input checked="" type="checkbox"/> In principle | DTF acknowledges there are opportunities for improving the state significant risk process. DTF will revise the existing process for identification of state significant risks. This will include development of | 1 July 2025 |

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| No. | VAGO recommendation | Acceptance | Agreed management actions | Target completion date |
|-----|--|------------|---|------------------------|
| | <ul style="list-style-type: none"> a risk appetite statement (see Section 4). | | <p>criteria to describe and assess risks as being of potential state significance.</p> <p>DTF will consider how whole of government objectives and risk appetite in relation to state significant risks can be most usefully determined under the current legislated model for risk management in the Victorian government.</p> | |

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Response provided by the Secretary, Department of Transport and Planning



Department of Transport and Planning

GPO Box 2392
Melbourne, Victoria 3001 Australia

Ref: BSEC-1-24-2116

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

Dear Mr Greaves

Victorian Auditor-General's Office - Managing State-Significant Risks - Proposed report

Thank you for your letter of 22 May 2024 enclosing the proposed report for the *Managing State-Significant Risks* performance audit (the Report).

The Department of Transport and Planning (the Department) has considered the findings and is supportive of the opportunities for improvement raised in the Report. The Department is reviewing its Risk Management Framework to build on its current approach to shared and state-significant risk management.

Thank you for the opportunity to comment on the Report.

Yours sincerely



Secretary
Department of Transport and Planning

30 May 2024



OFFICIAL



5 June 2024

Mr Andrew Greaves
Auditor-General

Email: [REDACTED]

Dear Mr Greaves,

Re: Proposed Performance Audit Report: Managing State-Significant Risk

Thank you for your letter dated 22 May 2024, enclosing VAGO's proposed performance audit report into Managing State-Significant Risks.

The VMIA acknowledges the report findings and recommendations. However, we are of the view that we meet all our obligations under the *Victorian Managed Insurance Authority Act 1996*, by advising government on risk management and providing advice to the Assistant Treasurer, as the proposed report acknowledges.

We note, as identified in recommendation 4, that there is an opportunity to improve monitoring of the risk maturity of State-Significant Risks and advising the Assistant Treasurer. We will work with the Secretariat for the State-Significant Risk IDC and the Department of Treasury and Finance on this recommendation.

Our response, and action plan to address the recommendation is provided in Appendix A.

If you require further clarification, please contact Andrew Davies, Chief Executive Officer, at [REDACTED]

Yours sincerely



Elana Rubin
Chair, VMIA Board

CC: Catherine Sandercock
Lydia Burg

[REDACTED]
Andrew Davies, Chief Executive Officer, VMIA.

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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, present and emerging. We acknowledge the important contribution that Aboriginal and Torres Strait Islander peoples make in creating a thriving Victoria.

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APPENDIX A

The Victorian Managed Insurance Authority's action plan to address recommendations from Managing State-Significant Risks

| No. | VAGO Recommendation | Acceptance | Agreed Management Actions | Target Completion Date |
|-----|---|--|---|------------------------|
| 1 | <p>Recommendation 4</p> <p>Establish and implement a process to monitor risk management maturity at statewide level for state-significant risks and advise the Assistant Treasurer (see section 3).</p> | <p>Yes <input checked="" type="checkbox"/></p> <p>No <input type="checkbox"/></p> <p>In part <input type="checkbox"/></p> <p>In principle <input type="checkbox"/></p> | <p>VMA will work with the secretariat for the State Significant Risk IDC and the Department of Treasury and Finance to improve reporting to the Assistant Treasurer on the maturity of State Significant risks, where required.</p> | Ongoing |

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Appendix B: Abbreviations, acronyms and glossary

Abbreviations We use the following abbreviations in this report:

Abbreviation

| | |
|-----------------------------|---|
| 2018 Directions | <i>Standing Directions 2018 Under the Financial Management Act 1994</i> |
| the Framework | Victorian Government Risk Management Framework |
| the Insurance Authority | Victorian Managed Insurance Authority |
| the Insurance Authority Act | <i>Victorian Managed Insurance Authority Act 1996</i> |
| the Risk Committee | State-Significant Risk Interdepartmental Committee |
| the Risk Standard | <i>ISO 31000:2018 Risk Management – Guidelines</i> |
| the Secretaries' Board | Victorian Secretaries' Board |

Acronyms We use the following acronyms in this report:

Acronym

| | |
|-------|--|
| DE | Department of Education |
| DEECA | Department of Energy, Environment and Climate Action |
| DFFH | Department of Families, Fairness and Housing |
| DGS | Department of Government Services |
| DH | Department of Health |
| 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 |
| SSR | state-significant risk |
| VAGO | Victorian Auditor-General's Office |

Glossary

This glossary includes an explanation of the types of engagements we perform:

Term

| | |
|----------------------|---|
| 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. |
|----------------------|---|

| | |
|-------------------|--|
| 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. |
|-------------------|--|

Appendix C: Audit scope and method

Scope of this audit

Who we examined

We examined the following agencies:

| Agency | Their key roles and responsibilities related to SSRs as the Framework describes them |
|--|--|
| DPC | <ul style="list-style-type: none"> Plays a pivotal role in managing SSRs through coordinating the Cabinet process Supports the Premier on government-wide issues and on their portfolio ministerial responsibilities |
| DTF | <ul style="list-style-type: none"> Advises the government on policies relating to risk management and insurance. DTF is responsible for maintaining and updating the Framework to make sure that it continues to be aligned with best practice Monitors compliance with Ministerial Standing Direction 3.7.1 through the annual attestation process and provides additional guidance on the DTF website Serves as the Risk Committee's secretariat |
| The Insurance Authority | <ul style="list-style-type: none"> Provides advice to the Victorian public sector Has a support role to play in the implementation of the Framework through assisting agencies with technical expertise and advice on risk management best practice and standards Has responsibilities in relation to public sector agencies, including: <ul style="list-style-type: none"> assisting to establish programs to identify, quantify and manage risks monitoring risk management maturity and capability providing risk management advice and training advising the government on risk management acting as an insurer Guides and supports agencies to apply the Framework by providing risk guidelines, training and support and risk maturity assessments |
| All 10 departments: | <ul style="list-style-type: none"> Must have a risk management framework in place consistent with the Risk Standard. They must annually review it to ensure it remains current and is enhanced, as required Must contribute to identifying and managing SSRs, as appropriate For DTF and DPC, this is in addition to their central agency roles listed above |
| <ul style="list-style-type: none"> DE DEECA DFFH DGS DH DJCS DJSIR DPC DTF DTP | |

Our audit objective

To determine if:

- agencies are working collaboratively to identify and manage SSRs
- DTF provides confidence to the Assistant Treasurer and Treasurer on how well agencies manage these risks.

This expands on the description we included in our *Annual Plan 2023–24*, by specifying DTF's central agency responsibilities under the 2018 Directions to advise the Assistant Treasurer and Treasurer.

What we examined

We examined whether:

- DTF has designed the Framework to be fit for purpose for SSRs
- agencies are providing their relevant ministers the information they need on SSRs
- agencies are effectively identifying and managing SSRs.

Conducting this audit

Assessing performance

To form our conclusion against our objective we used the used the following lines of inquiry and associated evaluation criteria:

| Line of inquiry | Criteria |
|--|---|
| 1. Does DTF make sure that the Framework is fit for purpose for managing SSRs? | 1.1 The Framework 2020 adopts the Risk Standard. |
| | 1.2 The Framework is designed to provide confidence to government and the community that SSRs are being managed and there is a clear line of sight over them. |
| | 1.3 DTF meets the expectations set out for it under the 2018 Directions Section 2.3.6 a, and b. |
| 2. Does DTF advise the Treasurer and Assistant Treasurer, as the 2018 Directions require, with respect to risks including SSRs? | 2.1 DTF meets the expectations set out for it under the 2018 Directions Section 2.3.6 a, and b. |
| 3. Do agencies work collaboratively to identify and prioritise SSRs and implement strategies to manage these risks within acceptable levels? | 3.1 Agencies meet the expectations of the Framework to identify and manage SSRs. |
| | 3.2 The Risk Committee is operating in accordance with Framework expectations. |
| | 3.3 The Insurance Authority advises the state and assists agencies in accordance with the Insurance Authority Act with regards to SSRs. |
| | 3.4 The Secretaries' Board meets the expectations of the Framework to oversee SSRs and support effective collaboration. |

Our methods

As part of the audit we:

- reviewed and analysed documentation, including data from the 10 departments and the Insurance Authority
- interviewed key officers and staff.

Compliance

We conducted our audit in accordance with the *Audit Act 1994* and ASAE 3500 *Performance Engagements* to obtain reasonable assurance to provide a basis for our conclusion.

We complied with the independence and other relevant ethical requirements related to assurance engagements.

Cost and time

The full cost of the audit and preparation of this report was \$675,000.

The duration of the audit was 11 months from initiation to tabling.

Appendix D: Victoria's 2023 list of SSRs

| Risk # | Lead agency | Risk title | Risk description |
|---------------------------------------|--------------|---|--|
| Risk category: Complex issues | | | |
| 1 | DEECA | Climate change physical impacts | Avoidable harm and loss are experienced by the community, businesses, and government due to effects of climate change. |
| 2 | DFFH | Whole-of-Victorian Government family violence reform | Victoria's family violence reforms outcomes are not realised or demonstrated due to challenges with implementation, oversight and evidentiary data and external events, leading to poorer outcomes for the Victorian community. |
| 3 | DFFH and DTF | Escalation in socioeconomic disadvantage | Socio-economic disadvantage could become more prevalent and entrenched. If the opportunity to make material progress is lost the implications for the State could be complex, costly, and protracted. |
| 4 | DH | Chronic preventable illness remains pervasive and/or increases | If the prevalence and severity of chronic preventable illnesses reaches a point where it places an unsustainable ongoing burden on the health system. This may also detract from productivity and life outcomes of Victorians. There is a risk that the problem becomes unmanageable if material progress is not made in prevention. |
| 5 | DH | Mental illness is pervasive and/or increases | The mental health system continues to be driven by crisis, emergency departments are used as entry points, increasing demand on services, fatigued workforce and critical workforce shortages are undermining overall reforms efforts, including roll-out of more community-based services, efforts to embed perspectives and experiences of people with lived experience of mental illness or psychological distress. |
| 6 | DEECA | Poor economic and environmental outcomes because of biodiversity loss | There is already a decline in Victoria's biodiversity. There is a risk that a critical loss in biodiversity will be irreversible and have significant negative impacts on community wellbeing, liveability, and the economy. |
| Risk category: External shocks | | | |
| 7 | DTP and DTF | Building sector disruption | Underlying conduct in the industry and associated regulatory issues could impede the operation of the building sector, leading to: <ul style="list-style-type: none"> • sharp reductions in economic activity • increased unemployment • an impact on government's ability to deliver and maintain infrastructure • significant impacts on building customers • reputational impacts to government. |
| 8 | DGS | Cyber incidents | Cyber security risk relates to the impacts of unauthorised access, modification, loss of integrity or release of information disrupting critical Victorian Government infrastructure operations, service delivery. |
| 9 | DEECA | Disorderly energy transition | A disorderly transition to renewable energy could result in job losses, supply disruptions and price volatility. |

| Risk # | Lead agency | Risk title | Risk description |
|--------|-------------|---|--|
| 10 | DJSIR | Trade disruption | Victoria's economy could be severely impacted by a decline in trade and investment due to barriers to diversification, freight and supply chain disruptions, competition, and global factors. |
| 11 | DTF | Disrupted economic recovery | A disrupted economic recovery caused by a further outbreak(s) of COVID-19 and the reimposition of public health restrictions resulting in and worsening hardship for Victorians. |
| 12 | DJSIR | Strategically important business closures | Strategically important businesses downsize or close operations, triggering job losses, supply chain effects, and social impacts, prompting a response from government. |
| 13 | DJCS | Security incidents | Large scale and/or isolated security incidents such as terrorist attack, violent protest or criminal act could lead to trauma and/or loss of life and a reduction in community confidence and social cohesion. |
| 14 | DJCS | Statewide emergency | A major emergency or significant concurrent statewide emergencies due to natural, human, or biological causes could lead to loss of life and/or significant hardship being incurred by Victorians. |
| 15 | DEECA | Transition to a low-carbon economy | The global transition to a low-carbon economy could create major disruption to the economy, community, environment, and government if poorly managed. |

Risk category: Operational

| | | | |
|----|-------------------|--|---|
| 16 | DPC | Commonwealth – state relations | Decisions by the Commonwealth (and other jurisdictions) could result in sub-optimal outcomes for Victorians. |
| 17 | DGS | Adverse economic and consumer impacts due to poor adaptation to digital technologies by government | Businesses and consumers could experience losses and sustained poor outcomes due to inadequate regulation associated with new digital technologies. |
| 18 | DTP and DTF | Infrastructure provision and delivery failures | Systematic failures could result in frequent cost overruns, delays, and reduced level of quality standards to infrastructure delivery. |
| 19 | DTF | Adverse impacts of population and demographic change | Poorly managed demographic change could result in poor social, environmental, and economic outcomes for Victorians. |
| 20 | No lead allocated | Workforce and skills shortages | Workforce and skills shortages in the Victorian public sector, and frontline and funded services caused by labour supply constraints and increased demand could lead to compromised delivery and adverse outcomes for individuals, the community, and the state. |
| 21 | DGS | Poor performance and resilience of information and communications technology in government | Sustained disruption to information and communications technology and unanticipated delays to recover systems could impact security and access to data and information, and delivery of critical services to community. |
| 22 | DPC | Loss of trust in government, arising from integrity breaches or improper conduct | A large scale and/or critical instance of improper conduct in the Victorian public sector, fiscal mismanagement, or failure to deliver services or infrastructure could impact government's ability to operate effectively and erode lawful and ethical conduct in the community. |

Note: The information in this table is taken directly from the Risk Committee's 2023 report.
Source: Risk Committee, 2023 State Significant Risk Scan report.

Auditor-General's reports tabled during 2023–24

| Report title | Tabled |
|---|---------------|
| <i>Cybersecurity: Cloud Computing Products</i> (2023–24: 1) | August 2023 |
| <i>Responses to Performance Engagement Recommendations: Annual Status Update 2023</i> (2023–24: 2) | August 2023 |
| <i>Eloque: the Joint Venture Between DoT and Xerox</i> (2023–24: 3) | October 2023 |
| <i>Domestic Building Oversight Part 1: Regulation</i> (2023–24: 4) | November 2023 |
| <i>Employee Health and Wellbeing in Victorian Public Hospitals</i> (2023–24: 5) | November 2023 |
| <i>Reducing the Illegal Disposal of Asbestos</i> (2023–24: 6) | November 2023 |
| <i>Auditor-General's Report on the Annual Financial Report of the State of Victoria: 2022–23</i> (2023–24: 7) | November 2023 |
| <i>Contractors and Consultants in the Victorian Public Service: Spending</i> (2023–24: 8) | November 2023 |
| <i>Major Projects Performance Reporting 2023</i> (2023–24: 9) | November 2023 |
| <i>Fair Presentation of Service Delivery Performance 2023</i> (2023–24: 10) | November 2023 |
| <i>Reducing the Harm Caused by Drugs on Victorian Roads</i> (2023–24: 11) | December 2023 |
| <i>Results of 2022–23 Audits: Local Government</i> (2023–24: 12) | March 2024 |
| <i>Withdrawal from 2026 Commonwealth Games</i> (2023–24: 13) | March 2024 |
| <i>Follow-up of Management of the Student Resource Package</i> (2023–24: 14) | May 2024 |
| <i>Literacy and Numeracy Achievement Outcomes for Victorian Students</i> (2023–24: 15) | May 2024 |
| <i>Guardianship and Decision-making for Vulnerable Adults</i> (2023–24: 16) | May 2024 |
| <i>Domestic Building Oversight Part 2: Dispute Resolution</i> (2023–24: 17) | June 2024 |
| <i>Planning Social Housing</i> (2023–24: 18) | June 2024 |
| <i>Effectiveness of the Tutor Learning Initiative</i> (2023–24: 19) | June 2024 |
| <i>Assuring the Integrity of the Victorian Government's Procurement Activities</i> (2023–24: 20) | June 2024 |
| <i>Effectiveness of Arterial Road Congestion Initiatives</i> (2023–24: 21) | June 2024 |
| <i>Metro Tunnel Project: Phase 3 – Systems Integration, Testing and Commissioning</i> (2023–24: 22) | June 2024 |
| <i>Access to Emergency Healthcare</i> (2023–24: 23) | June 2024 |
| <i>Managing State-significant Risks</i> (2023–24: 24) | June 2024 |

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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