

6.

Performance statement

6.1 Performance statement

Our performance statement makes reference to the 2023–24 performance measures agreed with the Treasurer as set out in *Budget Paper No. 3*. In the following tables, we report our actual and comparative results achieved for the financial year against targets for each of our output groups.

FIGURE 6A: **Output Group 1 – Parliamentary reports and services**

Performance measure	Unit of measure	2022–23 actual	2023–24 actual	2023–24 target	2023–24 per cent variation	Result	Notes
Quantity							
Average cost of parliamentary reports	(\$ thousand)	438.4	525.8	552.0	(4.8)	✓	
Quality							
Percentage of performance audit recommendations accepted which are reported as implemented by audited agencies	(per cent)	76.9	77.6	80.0	(3.0)	X	
Overall level of external satisfaction with audit reports and services – parliamentarians	(per cent)	N/A	90.0	85.0	5.9	✓	
Timeliness							
Average duration taken to finalise responses to inquiries from Members of Parliament	(days)	26.4	29.5	≤ 20.0	47.5	X	3.1
Average duration taken to produce performance audit parliamentary reports	(months)	10.1	10.9	≤ 9.0	21.5	X	3.2
Average duration taken to produce financial audit parliamentary reports after the balance date	(months)	6.0	6.3	≤ 5.0	26.6	X	3.3
Cost							
Total output cost	(\$ million)	16.5	18.0	19.3	(6.9)	✓	3.4

Note:

✓ indicates that the target was achieved or bettered.

X indicates that the target was not met.

FIGURE 6B: **Output Group 2 – Audit opinions on financial and performance statements**

Performance measure	Unit of measure	2022–23 actual	2023–24 actual	2023–24 target	2023–24 per cent variation	Result	Notes
Quantity							
Average cost of audit opinions issued on performance statements	(\$ thousand)	5.4	5.4	5.7	(4.4)	✓	
Average cost of audit opinions issued on the financial statements of agencies	(\$ thousand)	55.2	59.7	52.4	13.9	X	3.5
Quality							
External/peer reviews finding no material departures from professional and regulatory standards	(per cent)	88.2	77.8	100.0	(22.2)	X	3.6
Proportion of agencies disclosing prior period material errors in financial statements	(per cent)	1.0	0.4	≤ 5.0	(92.7)	✓	
Timeliness							
Audit opinions issued within statutory deadlines	(per cent)	97.2	98.4	98.0	0.4%	✓	
Management letters to agencies issued within established time frames	(per cent)	90.7	85.8	90.0	(4.7)	X	3.7
Cost							
Total output cost	(\$ million)	35.6	41.1	29.8	37.9	X	3.8

Note:

✓ indicates that the target was achieved or bettered.

X indicates that the target was not met.

6.2 Notes to the performance statement for the year ended 30 June 2024

1. Basis of preparation

The Victorian Auditor-General's Office (VAGO) must report annually on expected and actual performance as part of parliament's departmental performance statement in *Budget Paper No. 3*. This information is not audited.

While we are not required to include an audited departmental performance statement in our Annual Report, Financial Reporting Direction (FRD) 8 requires departments to provide a comparison of output targets and actual performance in their annual report of operations, and reasons for any significant or material variances. While not applicable to us, FRD 27 also requires that the statement of performance must include the actual results achieved for the reporting period against the corresponding period's pre-determined performance targets and indicators.

In the absence of any broad mandatory performance reporting standards, we have prepared this performance statement in a format consistent with that used in *Budget Paper No. 3*, and in line with the Standing Directions under the *Financial Management Act 1994*, Performance Management Framework, FRD 8 and FRD 27.

This performance statement includes the performance measures, targets and results of our 2 output groups, with explanations of significant variations between targets and actual results. We deem significant as greater than a 5 per cent variance. We have not provided notes for variations within those thresholds.

Where applicable the results in the performance statement have been prepared on bases consistent with those reported in the audited financial statements.

2. Output measures

The products and services we deliver are organised into 2 parliamentary output groups in *Budget Paper No. 3*.

- Output Group 1 covers parliamentary reports and services
- Output Group 2 covers audit opinions on financial and performance statements.

We have performance measures and targets for quantity, quality, timeliness and cost, across both our output groups.

FIGURE 6C: **Output measure definitions**

Performance measure	Dimension	Goal	Calculation
Output Group 1 – parliamentary reports and services			
Average cost of parliamentary reports	Quantity	Tracks the cost-efficiency of our products	Total lifecycle cost of parliamentary reports tabled during 2023–24 / Total number of parliamentary reports tabled during 2023–24 (excluding Annual Plan and Annual Report)
Percentage of performance audit recommendations accepted which are reported as implemented by audited agencies	Quality	Tracks our effectiveness and relevance across the public sector	Total number of accepted in principle, partially, and fully accepted performance audit recommendations issued 2 and 3 years prior / Total number of accepted performance engagement recommendations issued 2 and 3 years prior

Performance measure	Dimension	Goal	Calculation
Overall level of external satisfaction with audit reports and services – parliamentarians	Quality	Tracks overall level of external satisfaction with our reports and services	Total number of parliamentarians who stated they were satisfied or very satisfied / Total number of parliamentarians who responded to the question in the survey
Average duration taken to finalise responses to inquiries from Members of Parliament	Timeliness	Tracks the efficiency with which VAGO responds to inquiries from respective parliamentarians	Number of days between the date the inquiry is received and the date the response is sent out
Average duration taken to produce performance audit parliamentary reports	Timeliness	Tracks how efficient we are at utilising resources to produce our reports	Total number of months between the initiation date and tabling date of all performance audit (reasonable assurance) parliamentary reports tabled during the financial year / Total number of performance audit parliamentary reports tabled during the financial year
Average duration taken to produce financial audit parliamentary reports after the balance date	Timeliness	Tracks how efficient we are at utilising resources to produce our reports	Total number of months between the balance sheet date of the sector and the tabling date of all financial audit parliamentary reports tabled during the financial year / Total number of financial audit parliamentary reports tabled during the financial year
Total output cost	Cost	Tracks the cost – efficiency of the whole of VAGO	Total expenditure allocated to the output group, net of recoup of salaries and expenses
Output Group 2 – audit opinions on financial and performance statements			
Average cost of audit opinions issued on performance statements	Quantity	Tracks the cost – efficiency of our products	Total lifecycle cost of audit opinions issued on performance statements during the financial year (actual or estimated) / Total number of audit opinions issued on performance statements during the financial year
Average cost of audit opinion issued on the financial statements of agencies	Quantity	Tracks the cost – efficiency of our products	Total lifecycle cost of audit opinions issued on financial statements during the financial year / Total number of audit opinions issued on financial statements during the financial year
External/peer reviews finding no material departures from professional and regulatory standards	Quality	Tracks the quality of our audit processes	Total number of financial audit engagement files subject to post audit quality reviews during the financial year that contain material departures from professional and regulatory standards / Total number of financial audit engagement files subject to post audit quality reviews during the financial year
Proportion of agencies disclosing prior period material errors in financial statements	Quality	Tracks the quality of our work outcomes	Total number of agencies disclosing a prior period material error during the financial year / Total number of agencies issued with an audit opinion during the financial year

Performance measure	Dimension	Goal	Calculation
Audit opinions issued within statutory deadlines	Timeliness	Tracks the timeliness of our work	Total number of audit opinions issued within 28 days of the receipt of finalised financial statements during the financial year / Total number of audit opinions issued during the financial year
Management letters to agencies issued within established timeframes	Timeliness	Tracks the timeliness of our work	Total number of finalised management letters issued to agencies within 28 days of the audit opinion being issued during 2023–24 / Total number of finalised management letters issued to agencies during the financial year
Total output cost	Cost	Tracks the cost efficiency of the whole of VAGO	Total expenditure allocated to this output group net of recoup of salaries and expenses

3. Explanation of significant variances

- 3.1 The ability to respond to inquiries from Members of Parliament in line with the target was impacted by vacant staff positions arising from unanticipated turnover and organisational changes. This has since been resolved. Since filling vacant roles, the average time to respond to Members of Parliament has been well below the target timeframe. We expect this measure to continue to improve towards our target.
- 3.2 Four audits were carried over from 2022–23 which were impacted by unanticipated staff turnover and unplanned leave. Additionally, for these audits we gave auditees additional time to review the report or provide additional data to ensure fairness and accurate reporting. As a result, this negatively impacted our average duration to produce parliamentary reports compared to our target.
- 3.3 The average duration taken to produce financial audit parliamentary reports was greater than our target because the *Results of 2022–23 Audits: Local Government* report took 8.2 months to complete and the *Results of 2023 Audits: Universities* report took 5.9 months. These reports were influenced by the timing of financial reporting processes across the respective sectors, audit processes, and resource availability. For further details on the financial reporting and audit timelines, refer to these sector reports on our website.
- 3.4 Unanticipated staff turnover and the difficult labour market to fill vacant positions has resulted in an underspend in labour costs. Additionally, there was budgeted subject matter experts for performance audits which were not utilised in 2023–24.
- 3.5 The average cost of audit opinions represents the audit fee we charge our clients. Under the *Audit Act 1994*, we recover all reasonable expenses associated with conducting audits. The rise in average audit fees is due to the following factors:

Increased audit effort:

- We expanded our audit activities, with production hours rising from 96,700 in 2022–23 to 109,000 in 2023–24. This increase was driven by changes in audit strategies to address complex issues, such as machinery of government changes and accounting challenges, leading to a total of 109,000 audit hours delivered.
- Audit efforts by our service providers also increased for similar reasons, causing audit-related costs to rise from \$17.5 million last year to \$19.8 million this year. This increase in costs directly influences the revenue we recover.

Audit fee indexation:

- We increased our audit fees by 4%, in line with the ABS wage price index. This indexation is capped in accordance with DTF guidance

3.6 We did not achieve our target because our independent inspectors concluded that 4 of the 18 audit files they reviewed had deficiencies in the audit evidence supporting the audit opinion. To reduce the performance variation, we will assess the root cause of key ongoing and emerging themes to enable us to identify effective solutions.

3.7 Delays to issuing management letters from the 2023 audit cycle were caused by:

- identification of complex audit issues requiring further consideration and drafting
- delays experienced receiving client responses to our findings
- workforce capacity challenges because of competing priorities (e.g. machinery of government impacted audits taking longer than anticipated, parliamentary reporting obligations).

Our timeliness improved as the audit cycle progressed as we focused on getting back on track post-pandemic. This is evident by the improvement in delivery of final management letters – for our 30 June 2023 audit cycle we issued 71 late final management letters, whereas for our 31 December 2023 audit cycle only 1 management letter was issued late.

3.8 The increase in total output costs for delivering audit opinions on financial and performance statements is due to the following factors:

Increased audit effort:

Both internal audit teams and external audit service providers have delivered greater audit effort, as outlined in variance 3.5.

Investment in transformational projects:

We have incurred costs for projects aimed at adapting to the evolving financial auditing profession. This includes enhancing our data analytics capabilities, upskilling staff, and addressing the challenges of a hybrid working environment.

Higher workforce costs:

Increased due to using additional resources to keep audit delivery on track, affected by pandemic-related labour market issues.

As our actual results over time demonstrate, the target which is currently indexed in accordance with DTF guidance, should be rebased to more accurately reflect our expected performance.

Independent Auditor's report



PKF Melbourne Audit & Assurance
Pty Ltd ABN 75 600 749 184
Level 16, 500 Bourke Street
Melbourne, Victoria 3000

T: +61 3 9679 2222
F: +61 3 9679 2288
info@pkf.com.au
pkf.com.au

Independent Auditor's Review Report to the Victorian Auditor-General's Office Report on the Performance Statement

Conclusion

We have reviewed the accompanying performance statement of the Victorian Auditor-General's Office which includes in respect of the financial year 2023-24 the performance indicators agreed with the Assistant Treasurer as set out in *Budget Paper No. 3*, actual and comparative results achieved for the financial year against targets where applicable, and explanations of any significant and/or material variance between the actual results and performance targets, together with the Declaration by the Auditor-General and Chief Financial Officer.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the performance statement does not fairly represent the measures used and results reported for the financial year 2023-24.

Auditor-General's Responsibility for the Performance Statement

The Auditor-General is responsible for the preparation of the performance statement. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation of the performance statement to ensure that it fairly represents the measures used and results reported, consistent with the Standing Directions 2018 under the *Financial Management Act 1994*.

Auditor's Responsibility

Our responsibility is to express a conclusion on the performance statement based on our review. We have conducted our review in accordance with Standard on Review Engagements ASRE 2405 *Review of Historical Financial Information Other than a Financial Report*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the performance statement does not fairly represent the measures used and results reported.

ASRE2405 requires that we comply with the ethical requirements relevant to the conduct of our review.

A review of the performance statement consists of making enquiries, primarily of persons responsible for the performance measures, and applying other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

We have complied with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* that are relevant to our review of the performance statement.



PKF

Melbourne, 3 September 2024



Kenneth Weldin

Partner

PKF Melbourne Audit & Assurance Pty Ltd is a member of PKF Global, the network of member firms of PKF International Limited, each of which is a separately owned legal entity and does not accept any responsibility or liability for the actions or inactions of any individual member or correspondent firm(s). Liability limited by a scheme approved under Professional Standards Legislation.