

5.

Performance statement

Declaration in the performance statement

In our opinion, the measures used and results reported in the accompanying performance statement of the Victorian Auditor-General's Office in respect of the 2022–23 financial year are presented fairly, and are consistent with the Standing Directions under the *Financial Management Act 1994*.

The statement includes the 2022–23 performance measures 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.

As at the date of signing, we are not aware of any circumstance which would render any particulars in the performance statement to be misleading or inaccurate.

We authorise the attached performance statement for issue on 15 August 2023.



Andrew Greaves
Auditor-General
Victorian Auditor-General's Office
Melbourne
15 August 2023



Lucy Smith
Acting Executive Officer
Victorian Auditor-General's Office
Melbourne
15 August 2023

5.1 Performance statement

Our performance statement makes reference to the 2022–23 performance measures agreed with the Assistant 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.

Output Group 1 – parliamentary reports and services

Performance measure	Unit of measure	2021–22 actual	2022–23 target	2022–23 actual	2022–23 per cent variation	Result	Notes
Quantity							
Average cost of parliamentary reports	(\$ thousand)	683.6	535.4	438.4	(18.1)	✓	3.1
Quality							
Percentage of performance audit recommendations accepted that are reported as implemented by audited agencies	(per cent)	77.9	80.0	76.9	(3.9)	×	
Overall level of external satisfaction with audit reports and services – parliamentarians	(per cent)	77.5	85.0	N/A	N/A	N/A	3.2
Timeliness							
Average duration taken to finalise responses to inquiries from members of parliament	(days)	18.0	≤ 20.0	26.4	32.0	×	3.3
Average duration taken to produce performance audit parliamentary reports	(months)	13.0	≤ 9.0	10.1	12.2	×	3.4
Average duration taken to produce financial audit parliamentary reports after the balance date	(months)	4.9	≤ 5.0	6.0	20.0	×	3.5
Cost							
Total output cost	(\$ million)	16.5	18.7	16.5	(11.8)	✓	3.6

Note: ✓ indicates that the target was achieved or bettered
 × indicates that the target was not met

Output Group 2 – audit opinions on financial and performance statements

Performance measure	Unit of measure	2021–22 actual	2022–23 target	2022–23 actual	2022–23 per cent variation	Result	Notes
Quantity							
Average cost of audit opinions issued on performance statements	(\$ thousand)	5.2	5.5	5.4	(1.8)	✓	
Average cost of audit opinions issued on the financial statements of agencies	(\$ thousand)	54.3	50.8	55.2	8.7	×	3.7
Quality							
External/peer reviews finding no material departures from professional and regulatory standards	(per cent)	86.7	100.0	88.2	(11.8)	×	3.8
Proportion of agencies disclosing prior-period material errors in financial statements	(per cent)	2.2	≤ 5.0	1.0	-	✓	
Timeliness							
Audit opinions issued within statutory deadlines	(per cent)	96.0	98.0	97.2	(0.8)	×	
Management letters to agencies issued within established time frames	(per cent)	90.0	90.0	90.7	0.8	✓	
Cost							
Total output cost	(\$ million)	31.3	28.9	35.6	23.2	×	3.9

Note: ✓ indicates that the target was achieved or bettered
 × indicates that the target was not met

5.2 Notes to the performance statement for the year ended 30 June 2023

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) 8D 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 27C also requires that the statement of performance must include the actual results achieved for the reporting period against the corresponding period's predetermined 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 8D and FRD 27C.

This performance statement includes the performance measures, targets and results of our 2 performance 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, and 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.

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 2022–23 / Total number of parliamentary reports tabled during 2022–23 (excluding Annual Plan and Annual Report)
Percentage of performance audit recommendations accepted that 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 audit recommendations issued 2 and 3 years prior
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

Performance measure	Dimension	Goal	Calculation
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 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
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

Performance measure	Dimension	Goal	Calculation
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 2022–23 / 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 reduction in average costs of our parliamentary reports reflects the actual mix of audit engagements that we delivered, primarily in terms of their scope and timeliness.

We tabled 2 additional results of financial audit reports from the previous audit cycle in the current year due to delays following on from the pandemic, at an average cost of \$160,000, and 4 assurance reviews at an average cost of \$247,500, both of which are significantly less than the average cost of a performance audit.

3.2 We have not reported this measure for 2022–23 given the timing of the 2022 election and Parliament sitting dates recommencing from February 2023. We briefed new parliamentarians on our Office’s powers and functions in May 2023, the earliest date made available to us.

We have now issued a survey instrument and will report on the results as part of our 2023–24 measures.

3.3 Unanticipated staff turnover, unplanned leave and changes to the business unit and team responsible, affected the ability to respond to inquiries from members of parliament in line with the target. We note that the average duration was affected by 2 referrals that took a long time to resolve. Excluding these, the average for other referrals was 23 days.

3.4 The average duration increased during the pandemic due to staff turnover, unplanned leave and client delays in providing information or responses to our draft reports. Reduced disruption since the pandemic, and improved project management in 2022–23, brings the result significantly closer to the 2022–23 target.

3.5 Our results of financial audit reports were slightly delayed because we commenced our audit cycles later following the pandemic, in addition to experiencing workforce capacity challenges because of staff turnover and low labour market supply.

3.6 The tight labour market and unanticipated staff turnover resulted in an underspend in labour costs, with the average FTE for 2022–23 of 50.3 compared with the annual budgeted FTE of 56.5.

3.7 The average cost of audit opinions exceeds target, which is capped by the ABS Wage Price Index. Actual costs to complete financial audit opinions were above the index because we:

- experienced challenges with competitive labour market conditions and staff availability across the accounting industry, increasing internal staff costs and that of our audit service providers.
- engaged a contingent workforce to help rebase and get our audit delivery back on track post-pandemic.
- responded to the introduction of the updates to the Auditing Standard ASA 315 *Identifying and Assessing the Risks of Material Misstatement*, which required us to reconsider our knowledge and risk assessment of IT systems for all our audit clients. This required additional staff and the use of outsourced IT experts.

3.8 We did not achieve our target because our independent assessors concluded that 2 of the 17 audit files they reviewed had deficiencies in the audit evidence supporting the audit opinion. We have experienced a gradual improvement in this result for the past 3 years. We continue to assess the results of these reviews to determine and implement actions to improve audit quality.

3.9 The total output cost has increased consistent with explanations in 3.7. The variation mainly reflects that the way the target is determined requires reconsideration in light of actual market experience.

Independent Auditor's report



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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 2022-23 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 Acting Executive 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 2022-23.

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, 15 August 2023



Steven Bradby
Director