

Appendix A:

Audit quality indicators

Our rationale for selected measures

Overview Audit quality indicators are quantitative measures that give insight into our engagement processes. They help us assess and improve our audit quality and maintain high standards of performance. They can be measured either at the engagement level or the audit entity level.

Our approach There is no universally accepted set of audit quality indicators. Since 1994, we have drawn on indicators used in the Australasian Council of Auditors-General annual macro benchmarking survey. We do this because they provide consistent, comparable insights across audit offices in Australia.

In 2014–15, the Australasian Council of Auditors-General reviewed the survey's audit quality measures. It removed those where the cost of measurement exceeded their benefit.

Other indicators We also use for our quality indicators:

- output measures from our annual service delivery statement, which is part of the Victorian Government's Budget papers
- our annual complaints management reporting to the Audit and Risk Committee
- results from Victorian Public Sector Commission's annual people matter staff survey
- our survey results from our audit entities' chief financial officers.

Purpose We use this combination of indicators to:

- provide a comprehensive analysis of audit quality in financial and performance engagements
- evaluate our SQM's effectiveness.

Audit quality indicator performance statement

Figure A1 shows the 2020–21 to 2024–25 results for our audit quality indicators.

It compares them against 2024–25 external and internal benchmarks where they are available and appropriate.

Figure A1: Our audit quality indicator performance statement for 2020–21 to 2024–25

| Audit quality indicator | Unit of measure | 2020–21 results | 2021–22 results | 2022–23 results | 2023–24 results | 2024–25 results | 2024–25 benchmark | 2024–25 variance |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-------------------|------------------|
| Percentage of audited financial statements with restatements for material prior-period errors | Per cent | 2.0 | 2.2 | 1.0 | 0.4 | 2.2 | ≤5.0 | Within range |

| Audit quality indicator | Unit of measure | 2020–21 results | 2021–22 results | 2022–23 results | 2023–24 results | 2024–25 results | 2024–25 benchmark | 2024–25 variance |
|--|------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-------------------|--------------------|
| Number of audited financial statements with restatements for material prior-period errors | Number | 11 | 12 | 6 | 2 | 12 | ≤27 | Within range |
| Percentage of engagement leader hours charged to in-house financial audit work to lower-level audit staff hours ^(a) | Per cent | 4.5 | 4.8 | 6.1 | 5.2 | 6.8 | 10.0 | -3.2 |
| Percentage of time charged to audits by senior staff – attest audits | Per cent | 18.5 | 26.0 | 24.2 | 23 | 23 | 25 | -2 |
| Percentage of time charged to audits by senior staff – non-attest audits | Per cent | 40.7 | 42.0 | 40.0 | 43 | 51 | 48 | 3 |
| Training hours per full-time equivalent (FTE) audit professional – attest audit | Hours | 51.4 | 64.1 | 90.0 | 95.0 | 101 | 123 | -22 ⁽¹⁾ |
| Training hours per FTE audit professional – non-attest audits | Hours | 50.1 | 76.7 | 48.0 | 76.0 | 94.0 | 87.0 | 7.0 |
| Staff workload – chargeable hours per FTE professional – attest audits | Hours | 1,259 | 1,146 | 1,117 | 1,190 | 1,198 | 1,111 | 87 |
| Staff workload – chargeable hours per FTE professional – non-attest audits | Hours | 1,125 | 899 | 843 | 897 | 953 | 905 | 48 |
| Technical resources staff paid hours as a percentage of all hours charged to audit activities | Per cent | 15.0 | 11.2 | 9.4 | 8 | 8 | 5 | 3 |
| Percentage of total office expenditure allocated to technical audit resources (includes the cost of specialist technical advisory staff) | Per cent | 1.7 | 2.5 | 3.0 | 3.0 | 4.0 | 3.0 | 1.0 |
| Percentage of EQIP findings that contain material departures | Per cent | 18.8 | 13.3 | 11.8 | 11.8 | 6.3 | 40.9 | 34.6 |
| Number of complaints upheld against the quality assurance of our work performed | Number | 0 | 0 | 1 | 1 | 3 | 0 | -3 ⁽²⁾ |
| Attrition of permanent staff as a percentage of total permanent staff | Per cent | 20 | 18 | 34 | 23 | 27 | 18 | -9 ⁽³⁾ |
| Percentage of the attest audit budget spent before the auditee's reporting period year end – in-house attest audit | Per cent | 63.6 | 47.3 | 48 | 57 | 51 | 60 | 9 |
| Anonymous independent survey of staff through the Victorian Public Sector Commission's People Matter Survey – FA senior leadership score | Score out of 100 | 87.0 | 91.0 | 90.0 | 89.0 | 95.0 | 70.0 | 25.0 |

| Audit quality indicator | Unit of measure | 2020–21 results | 2021–22 results | 2022–23 results | 2023–24 results | 2024–25 results | 2024–25 benchmark | 2024–25 variance |
|--|------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-------------------|---------------------|
| Anonymous independent survey of staff through the Victorian Public Sector Commission's People Matter Survey – PRS senior leadership score | Score out of 100 | 64.0 | 56.0 | 39.0 | 47.0 | 62.0 | 70.0 | -8.0 ⁽⁴⁾ |
| Independent survey of financial audit engagements' chief financial officers – satisfaction rating of the level and quality of communication between the auditor and auditee ^(b) | Per cent | 92.5 | 86.1 | 81.5 | 84.3 | 85.6 | 90.0 | -4.4 |

Note: (a) Change of format from 2024–25 to show as a percentage for clarity. Prior year comparatives are unchanged in value, but expressed in this new format. (b) Prior-period figures restated due to a change in calculation methodology. Figures reflect the weighted average of audit entity chief financial officer survey responses. (1)–(4) See 'Explanation of significant variances' below.
Source: VAGO.

Explanation of significant variances

We consider adverse variations more than 5 per cent as significant. We have not provided notes for variations within this range.

⁽¹⁾ Training hours per FTE for professional staff working on attest audits continues to increase, as it did in the previous year. This reflects the positive impact of our continued:

- rollout of our Enhancing FA Capability project (see Section 2.2)
- focus on formal learning and development across VAGO.

This supports our goal to build capability through the FA capability framework and develop skills based on functional and audit engagement roles.

⁽²⁾ We received 4 complaints in 2024–25:

- 3 related to the timeliness of financial audits
- one related to consultation during a PRS engagement.

All 3 financial audit complaints were investigated internally and upheld. We worked with each complainant to capture lessons learned and put measures in place to make sure similar issues do not happen again. The PRS complaint was not upheld as, under the Audit Act, we were not required to consult on audit findings before tabling the report. But we acknowledge the audit team could have done more to keep the complainant updated on the status of the audit and maintain communications with them.

⁽³⁾ Staff turnover during the period reflected sustained competitive pressures in the external labour market. Across the audit profession, demand for experienced staff continues to outpace supply, alongside growing regulatory and technical complexity. These conditions contributed to elevated workforce movement during the period, consistent with sector-wide trends.

⁽⁴⁾ The significant increase in the survey results reflects PRS leadership's work to address staff dissatisfaction with the approaches to organisational change and workplace culture reported last year. These matters form part of our continuous improvement plans to drive change and improve staff satisfaction.

Notes to our audit quality indicator performance statement for the year ended 30 June 2025

Basis of preparation

In the absence of mandatory audit quality indicators, we have prepared this statement based on:

- the audit quality performance indicators we use in Budget Paper No. 3
- the measures used in the Australasian Council of Auditors-General Macro Benchmarking Survey
- other audit quality indicators used in the industry.

We have presented our results in line with the *Standing Directions 2018 Under the Financial Management Act 1994* and the financial reporting directions' FRD 8 *Consistency of budget and departmental reporting* and FRD 27 *Presentation and reporting of performance information*.

Figure A2 describes our audit quality indicator calculations and benchmark sources.

Statement of limitations

In choosing and analysing our audit quality indicators, we observe that:

- some do not directly measure the quality of the audits we perform
- each audit quality indicator provides information that only relates to one aspect of the inputs for achieving high-quality audits and there are many factors that affect audit quality
- different quantitative results for a particular measure may be appropriate in different circumstances (for example, different engagement-leader-to-staff ratios may be appropriate depending on factors like the nature, size and complexity of an audit engagement)
- the audit quality indicators presented in this report may change in future years as we reassess the relevance and usefulness of each indicator.

Figure A2: Audit quality indicators

| Audit quality indicator | Calculation | Benchmark source |
|---|---|--|
| Percentage of audited financial statements with restatements for material prior-period errors | Numerator: Total number of agencies disclosing a prior-period material error during the financial year Denominator: Total number of agencies issued with an audit opinion during the financial year | Department of Finance 2024–25 <i>Department Performance Statement</i> |
| Number of audited financial statements with restatements for material prior-period errors | Number of agencies disclosing a prior-period material error during the financial year | VAGO measure |
| Percentage of engagement leader hours charged to in-house financial audit work to lower-level audit staff hours | Numerator: Total hours of attest audit engagement sector directors charged to in-house attest audit activity Denominator: Total hours of attest audit staff for levels below engagement leader charged to in-house attest audit activity | Australasian Council of Auditors-General Macro Benchmarking Survey state and territory average for 2024–25 |
| Percentage of time charged to audits by senior staff – attest audits | Hours charged to attest audits by audit staff who are classified as a manager or higher as a percentage of total hours charged to attest audits | Australasian Council of Auditors-General Macro Benchmarking Survey state and territory average for 2024–25 |
| Percentage of time charged to audits by senior staff – non-attest audits | Hours charged to non-attest audits by audit staff who are classified as an engagement leader, manager, EQR or higher as a percentage of total hours charged to non-attest audits | Australasian Council of Auditors-General Macro Benchmarking Survey state and territory average for 2024–25 |

| Audit quality indicator | Calculation | Benchmark source |
|---|--|--|
| Training hours per FTE audit professional – attest audit | Numerator: Training/professional development hours recorded for attest audit staff Denominator: Total FTE number of attest audit staff | Australasian Council of Auditors-General Macro Benchmarking Survey state and territory average for 2024–25 |
| Training hours per FTE audit professional – non-attest audit | Numerator: Training/professional development hours recorded for non-attest audit staff Denominator: Total FTE number of non-attest audit staff | Australasian Council of Auditors-General Macro Benchmarking Survey state and territory average for 2024–25 |
| Staff workload – chargeable hours per FTE professional – attest audit | Numerator: Total attest audit staff hours charged/allocated to attest audits Denominator: Total FTE number of attest audit staff | Australasian Council of Auditors-General Macro Benchmarking Survey state and territory average for 2024–25 |
| Staff workload – chargeable hours per FTE professional – non-attest audit | Numerator: Total non-attest audit staff hours charged/allocated to non-attest audits Denominator: Total FTE number of non-attest audit staff | Australasian Council of Auditors-General Macro Benchmarking Survey state and territory average for 2024–25 |
| Technical resources staff paid hours as a percentage of all hours charged to audit activities | Numerator: Total hours paid for by the office for staff who specialise in providing technical advice to other staff in relation to audit work (including methodology support) Denominator: Total hours charged to audit activities by audit staff, the Auditor-General and Deputy Auditor-General, non-audit staff and contracted/labour hire personnel | Australasian Council of Auditors-General Macro Benchmarking Survey state and territory average for 2024–25 |
| Percentage of total office expenditure to allocated technical audit resources (including the cost of specialist technical advisory staff) | Numerator: Office expenditure on specialist audit technical advisory services Denominator: Total office expenditure | Australasian Council of Auditors-General Macro Benchmarking Survey state and territory average for 2024–25 |
| Percentage of EQIP findings that contain material departures | Numerator: Total number of financial audit engagement files subject to a EQIP during the financial year that contain material departures from professional and regulatory standards Denominator: Total number of financial audit engagement files subject to a EQIP during the financial year | ASIC results – <i>REP 819 ASIC's oversight of financial reporting and audit 2024–25</i> |
| Number of complaints upheld against the quality assurance of our work | Number of complaints upheld during the financial year | VAGO measure |
| Attrition of permanent staff as a percentage by role | Number of FTE permanent employees who ceased employment with VAGO in 2024–25 as a percentage of total FTE number of permanent staff in 2024–25 | Australasian Council of Auditors-General Macro Benchmarking Survey state and territory average for 2024–25 |
| Percentage of the audit budget spent before the auditee's reporting period year end (only applicable for FA excludes audits undertaken by ASPs) | Numerator: Audit engagement expenditure incurred from audit commencement to auditee's reporting period year end Denominator: Total estimated audit fee for audit engagement | VAGO measure |

| Audit quality indicator | Calculation | Benchmark source |
|---|---|---|
| Anonymous independent survey of staff through the Victorian Public Sector Commission's People Matter Survey – overall senior leadership score | Percentage of staff surveyed who agreed with the overall senior leadership questions raised by the Victorian Public Sector Commission | Victorian Public Sector Commission comparator peer group benchmark |
| Independent survey of financial audit engagements' chief financial officers – satisfaction rating of the level and quality of communication between the auditor and auditee | Percentage of chief financial officers surveyed who were satisfied that we communicated with them effectively | VAGO measure – consolidated chief financial officer agency survey results for 2024–25 |

Source: VAGO.