

2.1.2 Quality Assurance Framework

Introduction

The Audit Office of New South Wales (the Audit Office) is established under the *Public Finance and Audit Act 1983* (the Act). Section 27B(4) of the Act requires the Auditor-General to have regard to recognised professional standards and practices, and to comply with any relevant requirements imposed by law.

The Audit Office adopts the standards issued by the Auditing and Assurance Standards Board (AUASB). Specific to Quality Assurance, this includes ASQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports and other Financial Information, other Assurance Engagements and Related Services Engagements (ASQC 1).

This policy should be read in conjunction with the [Guidance - Audit Quality Indicators](#).

Quality in the Audit Office

The Audit Office defines audit quality as follows:

‘Audit quality is the provision of timely, accurate and relevant audits, performed independently in accordance with the Auditor-General’s mandate, Australian auditing standards and methodologies. Delivering quality audits helps parliament hold government accountable for its use of public resources.’

Objective of a quality assurance framework

The objective of establishing and maintaining a system of quality control under ASQC 1 is to provide the Auditor-General with reasonable assurance that:

- The Audit Office complies with Australian auditing standards, including relevant ethical requirements, and applicable legal and regulatory requirements; and
- Reports issued by the Auditor-General are appropriate in the circumstances.

Elements of a System of Quality Control

Under ASQC 1 the system of quality control established and maintained by the Audit Office is required to include policies and procedures that address each of the following elements:

1. Leadership responsibilities for quality within the Audit Office
2. Relevant ethical requirements
3. Acceptance and continuance of client relationships and specific engagements
4. Human resources
5. Engagement performance
6. Monitoring.

These policies and procedures are required to be documented and communicated to staff. The Quality Assurance Framework has been prepared to summarise how this has been achieved.

Leadership Responsibilities for Quality within the Audit Office

The Audit Office has policies and procedures to promote an internal culture based on the recognition that quality is essential in performing engagements. The Auditor-General is ultimately responsible for the system of quality control in place for all assurance and related activities undertaken by the Audit Office. From an operational perspective, the Deputy Auditor-General is responsible for ensuring the system of quality control satisfies the requirements of Australian auditing standards and is assisted by the Executive Director, Quality and Innovation and Assistant Auditors-General with this role.

The Executive Director, Quality and Innovation is responsible for the design, execution and maintenance of the Quality Assurance Framework, for monitoring compliance with the Framework and reporting to the Quality Audit Review Committee, Office Executive, and Audit and Risk Committee on the results of such monitoring activities.

The Assistant Auditors-General are responsible for the delivery of services to the required level of quality within their respective branches.

The Directors, Financial Audit and Principal Analysts are responsible for quality within their portfolio of audits and supporting the Assistant Auditors-General in the delivery and management of quality audit services.

The Executive Director, Corporate Services is responsible for the design, execution and maintenance of policies supporting the Quality Assurance Framework in respect of human resources, IT security and support, external communications, and learning and development.

The Quality Audit Review Committee is responsible for monitoring the implementation of the Quality Assurance Framework and reporting to the Office Executive on this implementation.

Policy References

[1.1.1 Policy Development, Applicability and Waivers](#)

[2.1.2 Quality Assurance Framework](#)

Key Quality Indicator

Target	Indicator	Measure	Calculation
Tone at the Top and Leadership	10. Results of Survey of Office Personnel	Measures the Office's "tone at the top" through use of a survey tool.	Anonymous surveys of Office staff about "tone at the top," quality of supervision and training, and the extent to which the Office promotes an environment that favours speaking up about potential issues, and promotes and rewards professional scepticism.

Ethical Requirements

The Audit Office has established policies and procedures designed to provide it with reasonable assurance that the Audit Office and its staff comply with relevant ethical requirements. The fundamental principles of professional ethics are:

- integrity
- objectivity
- professional competence and due care
- confidentiality
- professional behaviour.

The Audit Office has clearly established ethical values and statutory independence in relation to its audit responsibilities. The Audit Office's Ethical and Lawful Framework is designed to ensure a strong ethical and lawful culture is in place to support the Office's role.

Policy References

[2.3.1 Ethics and Independence](#)

[Ethical and Lawful Framework](#)

[Audit Office Code of Conduct](#)

[Conflict of Interest Policy](#)

Key Quality Indicator

Target	Indicator	Measure	Calculation
Independence and Ethics	13. Compliance with Independence and Ethical Requirements	Measures several elements of the Office's professional independence policies, and the importance it assigns to those policies.	No reported instances (or quality review findings) of non-compliance with ethical requirements. Percentage of Audit Professionals who completed the annual professional independence declarations by the due date. Percentage of Audit Professionals who completed the annual Code of Conduct training and sign-off by the due date.

Independence

The Audit Office Ethics and Independence policy applies to all staff and contractors of the Audit Office. It applies to all audits and related activities and is designed to provide reasonable assurance that, in the performance of their duties, staff and contractors comply with the relevant provisions of APES 110 Code of Ethics for Professional Accountants relating to audit independence, to the extent that they do not conflict with the Auditor-General's legislated mandate and responsibilities.

Policy References

[2.3.1 Ethics and Independence](#)

[Ethical and Lawful Framework](#)

[Audit Office Code of Conduct](#)

[Conflict of Interest Policy](#)

[2.4.2 Rotation of Staff on Assurance Engagements](#)

Key Quality Indicator

Target	Indicator	Measure	Calculation
Independence and Ethics	13. Compliance with Independence and Ethical Requirements	Measures several elements of the Office's professional independence policies, and the importance it assigns to those policies.	No reported instances (or quality review findings) of non-compliance with professional independence requirements. Percentage of Audit Professionals who completed the annual professional independence declarations by the due date. Percentage of Audit Professionals who completed the annual Code of Conduct training and sign-off by the due date.

Acceptance and Continuance of Client Relationships and Specific Engagements

Audit Office policy details the legislative basis for audits conducted under the Auditor-General's mandate. The policy requires all staff to familiarise themselves with the Act and other legislation or authorities governing each engagement. The Auditor-General may also conduct audits by request under the Public Finance and Audit Act 1983 and the Local Government Act 1993.

The requirements for acceptance and continuance of engagements are set out in policy.

The Audit Office methodology includes mandatory procedures in relation to consideration of whether the engagement team have the requisite skill, knowledge, capability and competence to complete the audit engagement.

Policy References

[2.1.1 Engagement Approach](#)

[Legal Environment](#)

[Outline of Government System and Operations in New South Wales](#)

[2.1.3 Reputation Protection and Risk Management](#)

[2.2.2 New Engagements and Risk Classification](#)

Key Quality Indicators

Target	Indicator	Measure	Calculation
Acceptance and Continuance	14. Compliance with Acceptance and Continuance Requirements	Measures the extent to which Acceptance and Continuance requirements are adhered to.	No reported instances (or quality review findings) of inappropriate acceptance or continuance of a client or engagement.
Competence	6. Competence and experience of Audit Personnel	Measures the level of competence and experience of members of a particular engagement team and the weighted average of Office personnel generally.	No quality review findings related to the lack of requisite skill, knowledge, capability or competence of the engagement team.

Human Resources

The Audit Office has policies and procedures designed to provide reasonable assurance that it has sufficient staff with the capabilities, competence, and commitment to ethical principles necessary to perform its engagements in accordance with professional standards and regulatory and legal requirements, and to enable the Auditor-General to issue reports that are appropriate in the circumstances.

The Audit Office has procedures and policies designed to aid in the selection of employees who have the necessary integrity and competency to perform the work required. These include: the Audit Office Recruitment and Selection policy and the Performance Management policy.

The Audit Office is committed to the continuing competence of its staff as established in the Audit Office Learning and Development policy. In addition, the Audit Office is developing a strategic workforce plan to ensure the future competencies required for the Audit Office into the future are met.

Policy References

[Recruitment and Selection Policy](#)

[Performance Management Policy](#)

[Learning and Development Policy](#)

Key Quality Indicators

Target	Indicator	Measure	Calculation
Competence	6. Competence and experience of Audit Personnel	Measures the level of competence and experience of members of a particular engagement team	All staff identified as meeting the performance expectations of their role.
	8. Training Hours per Audit Professional	Measures the hours of relevant training – including industry-specific training – that Audit Professionals have received.	Average annual technical training hours, in total and each Audit Office role.

Assignment of Engagement Teams

The Audit Office has policies and procedures which assign responsibility for each engagement to a Director, Financial Audit or Principal Analyst (the Engagement Controller). The respective responsibilities assigned to each role are clearly defined and detailed in the relevant policies and audit methodologies. The responsibilities of the Director, Financial Audit for audits conducted by audit service providers are also set out in separate guidance. In accordance with these policies the Director, Financial Audit is responsible for the audit and must communicate their responsibility for the audit to key members of client management and those charged with governance.

Audit Office practices for the allocation of staff to audits ensures the engagement team has the appropriate level of expertise and time to perform their role. Under these practices, the workload and availability of Engagement Controllers is monitored to ensure they have sufficient time to adequately discharge their responsibilities.

Policy References

[2.4.1 Assignment of Professional Staff to Assurance Engagements](#)

[2.4.2 Rotation of Staff on Assurance Engagements](#)

[2.2.4 Documentation of Engagement Terms](#)

[Guidance – Understanding roles and responsibilities for audits performed by Audit Service Providers](#)

Key Quality Indicators

Target	Indicator	Measure	Calculation
Availability	1. Staffing Leverage	Measures the time of experienced senior personnel relative to the volume of audit work they oversee.	Ratio of Directors' chargeable hours to chargeable hours of all other engagement personnel. Ratio of Directors' chargeable hours to Audit Leaders' chargeable hours. Ratio of Audit Leaders' chargeable hours to chargeable hours of all staff below Audit Leader.
	2. Director Workload	Measures the level of audit work for which the Director is responsible and the number of audits they are responsible for.	Average chargeable hours managed by Directors for all audit clients. Directors' average utilisation percentage.
	3. Audit Leader and Staff Workload	Measures the workload of Audit Leader and audit staff.	Audit Leader and audit staff average utilisation, respectively. Audit Leader and audit staff average chargeable hours at different periods within the year (e.g., during periods of peak audit workload).
Competence	6. Experience of Audit Personnel	Measures the level of experience of members of a particular engagement team and the weighted average experience of Office personnel generally.	Average experience for total audit personnel. Weighted average years of experience for Directors, Audit Leaders, staff auditors, and specialists respectively.
	7. Turnover of Audit Personnel	Measures turnover, that is, transfers to other engagements, branches in the Office, or outside the Office.	Percentage of Directors, Audit Leaders, audit staff, and specialists, respectively, that have left business teams, branches or left the Office, in the preceding 12 months.

Engagement Performance

The Audit Office policies and audit methodologies, together with template electronic audit files, provide reasonable assurance that engagements are performed in accordance with professional standards and regulatory and legal requirements, and that the reports issued are appropriate in the circumstances.

Financial audit teams use the Audit Office policies, approved audit methodology, standardised documentation and templates which promote consistency in the quality of engagement performance. Performance audit teams use the Audit Office policies, Performance Audit Guide, standardised documentation and templates which promote consistency in the quality of engagement performance.

The audit approach adopted requires regular team meetings and briefings, utilises standard checklists and mandatory procedures to ensure compliance with relevant auditing standards, and requires regular supervision and review of team members by more senior staff. Key judgements and the form of the audit report made on the engagement are reviewed by the signing officer in accordance with policy.

Documentation of the audit work performed, and the timing and extent of review is facilitated by the use of the approved audit methodologies and template electronic audit files.

Policy References

1.1.1 Policy Development, Applicability and Waivers

Key Quality Indicators

Target	Indicator	Measure	Calculation
Focus	9. Time spent on the audit process before the end of the financial year	Measures the extent (proportion of budget) to which audit teams conduct the audit process before the end of the financial year	Percentage of audit budget spent before the end of the audit client's financial year end (only applicable for financial audit).
Monitoring and Remediation	15. Office's Internal Quality Review Results	Measures the internal quality reviews conducted	Percentage of audits subjected to internal quality review inspections. Percentage of inspections with 'important' audit deficiencies. Percentage of inspections with more than one 'important' audit deficiency.
Internal Control	17. Timely Reporting of Internal Control Weaknesses	Measures the extent to which the Office identifies and reports internal control weaknesses on a timely basis.	Percentage of internal control weaknesses reported before the audit client's financial year end (only applicable for financial audit).
Communications between auditors and Audit and Risk Committees	18. Results of Independent Surveys of Audit and Risk Committee Chairs	Measures the effectiveness of the communication between auditors and Audit and Risk Committees through use of a survey tool.	Independent survey of Audit and Risk Committee Chairs overseeing one or more of the Office's audit engagements, to evaluate level and quality of communication between auditors and clients.

Consultation

The Audit Office has implemented policies on consultation that provide reasonable assurance that:

- appropriate consultation takes place on difficult or contentious matters
- sufficient resources are available to enable appropriate consultation to take place
- the nature and scope of such consultations are documented
- conclusions resulting from consultations are documented and implemented.

These policies encourage the engagement team to consult on significant, judgemental and complex matters that may arise. In addition, for financial audits, the policy outlines the use of the Assistant Auditors-General as a sounding board, the role of the Quality and Innovation Group in providing expert advice and the degree to which it is appropriate to consult with the Technical Issues Committee. Consultation for performance audit is discussed in the Performance Audit Guide.

The Technical Issues Committee provides a mechanism for Directors, Financial Audit to consult on difficult or contentious matters and where necessary, for dealing with and resolving differences of opinion.

Policy References

[2.5.3 Technical Issues Committee \(TIC\)](#)

[2.5.2 Using Audit Office Specialists](#)

[Using Audit Office Specialists - Quality and Innovation Group \(QIG\)](#)

Key Quality Indicators

Target	Indicator	Measure	Calculation
Availability	4. Technical Accounting and Auditing Resources	Measures the level of central personnel (or other resources engaged) available to provide engagement teams with advice on complex, unusual, or unfamiliar issues and the extent to which they are used in a particular engagement.	Size of technical audit resources as a percentage of total audit personnel, using a "full-time -equivalent" measurement to account for individuals who spend only part of their time on technical resource matters.
	5. Persons with Specialised Skill and Knowledge	Measures the use in an audit engagement of persons with "specialised skill and knowledge," other than accounting and auditing personnel included as technical accounting and auditing resources under indicator 4. These individuals may be Office personnel or external personnel.	Chargeable hours of persons with specialised skill or knowledge (except as included as technical resources under indicator 4) in total and by functional specialty, as a percentage of the Office's actual chargeable hours.
Financial Statements	16. Frequency and Impact of Financial Statement Restatements due to Errors	Measures the restatements due to errors in the financial statements whose audit the Office has performed.	Number and percentage (of audited financial statements) of restatements for material prior period errors.

Differences of Opinion

The Audit Office has established policies and procedures for dealing with and resolving differences of opinion within the engagement team, with those consulted and, where applicable, between the Director, Financial Audit (and signing officer if applicable) and the Engagements Quality Assurance Reviewer. The Director, Financial Audit is required to document and ensure the implementation of, all conclusions reached. The policy requires that the audit report shall not be issued until significant differences of opinion are resolved and sets out the circumstances when a difference of opinion needs to be escalated to the Technical Issues Committee.

Policy References

[2.5.3 Technical Issues Committee \(TIC\)](#)

[2.5.2 Using Audit Office Specialists](#)

[Using Audit Office Specialists - Quality and Innovation Group \(QIG\)](#)

Key Quality Indicator

Target	Indicator	Measure	Calculation
Availability	4. Technical Accounting and Auditing Resources	Measures the level of central personnel (or other resources engaged) available to provide engagement teams with advice on complex, unusual, or unfamiliar issues and the extent to which they are used in a particular engagement.	No unresolved differences of opinion.

Engagement Quality Control Review

The Audit Office has established policies and procedures which require that an Engagement Quality Control Reviewer (EQCR) be appointed to certain engagements. The policies and procedures are designed to ensure that the EQCR provides an objective evaluation of the significant judgements made by the audit team and conclusions reached in formulating the audit report.

Audit Office policy requires the appointment of an EQCR to engagements where the agency is assessed as a 'Public Interest Entity'. The policy recognises that it may be appropriate to appoint an EQCR to a financial audit in other circumstances in addition to those outlined.

Audit Office policy requires an EQCR be appointed to all performance audits.

Audit Office policy addresses the appointment and eligibility of the EQCR, the nature, timing and extent of the quality control review and specific documentation which the EQCR must review.

Policy References:

[2.2.2 New Engagements and Risk Classification](#)

[2.2.3 Engagement Quality Control Review](#)

Key Quality Indicator

Target	Indicator	Measure	Calculation
Competence	6. Competence and experience of Audit Personnel	Measures the level of competence and experience of members of a particular engagement team.	No quality review findings related to the inadequate performance of the EQCR role.

Engagement Documentation

The Audit Office's documentation policies and procedures require Engagement Teams to complete the assembly of final engagement files, to an appropriate level of detail, on a timely basis after the engagement reports have been finalised.

The Audit Office's policies and procedures are designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation. All Audit Office documentation is retained in accordance with the Audit Office Records Management Policy.

Electronic work papers and file management systems ensure that full audit trails are maintained of all amendments and alterations to work papers. Electronic files are protected by access controls restricting access to approved staff members. At completion of the audit the audit file is finalised and locked to prevent any changes after the finalisation of the audit. All electronic audit files are archived in accordance with the Audit Office policies on information management.

Policy References

[2.5.4 Preserving Secrecy](#)

[2.6.5 Policy for Finalisation of Audit Files](#)

[2.7.1 Retention of Engagement Documentation](#)

[Records Management Policy](#)

[Records Business Rules](#)

Key Quality Indicator

Target	Indicator	Measure	Calculation
Monitoring and Remediation	15. Office's Internal Quality Review Results	Measures the internal quality reviews conducted.	No "important" findings related to inadequate handling of engagement documentation.

IT security

The Audit Office Information Security Policy outlines the requirements for the office-wide management of information security. The policy is the principal instrument that senior management uses to provide direction for the establishment, implementation, maintenance and continued improvement of the Audit Office's Information Security Management System.

Backups of all Audit Office electronic work papers and file management systems are made regularly and a disaster recovery plan is in place.

Policy References

[Information Security Policy](#)

Key Quality Indicator

Target	Indicator	Measure	Calculation
Information Security	11. Compliance with Information Security Requirements	Measures the Office's performance in ensuring compliance with the NSW Government's Digital Information Security Policy, including ensuring that all communications have the appropriate classification.	No breaches of the Information Security Policy or Information Security Management System.

Communications

All documents and emails (communications) must be classified in accordance with the Audit Office Information Classification and Labelling Rules.

Policy References

[Information Classification and Labelling Rules](#)

Key Quality Indicator

Target	Indicator	Measure	Calculation
Information Security	11. Compliance with Information Security Requirements	Measures the Office's performance in ensuring compliance with the NSW Government's Digital Information Security Policy, including ensuring that all communications have the appropriate classification.	No identified high risk mis-classification or mis-labelling of communication.

Monitoring

The Audit Office has established policies and procedures designed to provide reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, operating effectively and complied with in practice.

The Audit Office Quality Audit Review Committee (QARC):

- determines whether the system of quality control provides reasonable assurance that the Audit Office complies with Australian Auditing Standards, relevant ethical requirements, and applicable laws and regulations
- assesses whether the engagements reviewed meet these requirements, reflect appropriate application of approved audit methodologies, and comply with relevant ethical requirements, applicable laws and regulations, and Audit Office policies
- determines whether the quality control processes are applied efficiently and effectively.

To support the QARC's role, the Audit Office policy requires a selection of engagements be subject to quality review.

All findings noted as a result of the quality review are evaluated and classified according to an agreed rating scale. Findings are communicated to the appropriate personnel and appropriate actions are recommended including determining the effect, if any, on the reports issued. The QARC ensures the quality review process, conclusions and actions are communicated to the Auditor-General, the Audit and Risk Committee, the Office Executive, the Financial Audit Executive or Performance Audit Executive (as applicable), the Leadership Team and the Office's Audit Service Providers.

Audit Office policy requires annual reporting by the Assistant Auditors-General to the Office Executive on specific aspects of the Quality Assurance Framework. The findings of the annual inspection of completed audits are advised to the Assistant Auditors-General prior to reporting them to the Office Executive via the QARC.

Policy References

[2.8.1 Monitoring Activities](#)

[Quality Audit Review Committee \(QARC\) charter](#)

[Quality Assessment and Remediation Guidelines](#)

Key Quality Indicator

Target	Indicator	Measure	Calculation
Monitoring and Remediation	15. Office's Internal Quality Review Results	Measures the internal quality reviews conducted.	Percentage of audits subjected to internal quality review inspections. Percentage of inspections with 'important' audit deficiencies. Percentage of inspections with more than one 'important' audit deficiency.

Complaints and Allegations

The Audit Office has established policies and procedures to provide reasonable assurance that it deals appropriately with complaints and allegations that, amongst other things, the assurance work performed does not comply with professional standards and regulatory and legal requirements.

Complaints and allegations may originate from within or outside the Audit Office, they may be made by Audit Office staff or contractors or third parties. All complaints and allegations are investigated in accordance with established policies and procedures.

Policy References

[Complaints Management Policy](#)

[Complaints Management Procedure](#)

Key Quality Indicator

Target	Indicator	Measure	Calculation
Complaints Management	12. All complaints and allegations made against the Office are investigated and appropriately resolved	Measures the Office's performance in ensuring complaints and allegations made by Office staff, audit service providers or third parties are investigated in accordance with policies and procedures.	No complaints upheld against the quality of assurance work performed.