

# **Quality Control Around Financial Statements Audits**

Australian National Audit Office

*Report by the Independent Auditor*

June 2013

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ISBN 0 642 81353 1 (Print)

ISBN 0 642 81354 X (On-line)

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19 June 2013

Dear Mr President  
Dear Madam Speaker

I have undertaken a performance audit of the Australian National Audit Office, in accordance with the authority contained in the *Auditor-General Act 1997*.

I present the report of this audit to the Parliament. The report is titled *Australian National Audit Office Performance Audit: Quality Control Around Financial Statements Audits*.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's Homepage—<http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Geoff Wilson', with a stylized flourish at the end.

Geoff Wilson  
*Independent Auditor*  
*Appointed under Section 41 of*  
*The Auditor-General Act 1997*



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# Abbreviations

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|             |  |
|-------------|--|
| AASG        | Assurance Audit Services Group               |
| the Act     | <i>Auditor-General Act 1997</i>              |
| ANAO        | Australian National Audit Office             |
| APS         | Australian Public Service                    |
| ASAE        | Australian Standard on Assurance Engagements |
| BPG         | Better Practice Guide                        |
| Changepoint | Project management and time recording system |
| CFO         | Chief Financial Officer                      |
| CMB         | Corporate Management Branch                  |
| EBOM        | Executive Board of Management                |
| E-hive      | Document management system                   |
| ED          | Executive Director                           |
| EL          | Executive Level                              |
| FTE         | Full Time Equivalent                         |
| GED         | Group Executive Director for AASG            |
| IT          | Information Technology                       |
| JCPAA       | Joint Committee of Public Accounts and Audit |
| KPI         | Key Performance Indicator                    |
| KRA         | Key Result Area                              |
| L&D         | Learning and Development                     |
| PAAM        | AASG Policy, Audit and Administration Manual |

|      |                                  |
|------|----------------------------------|
| PASG | Performance Audit Services Group |
| PSB  | Professional Services Branch     |
| SES  | Senior Executive Staff           |



# Summary



# Summary

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## Introduction

1. The Australian National Audit Office (ANAO) assists the Auditor-General to provide an independent view of the performance and financial management of Australian Government entities. The *Auditor-General Act 1997* (the Act) sets out the Auditor-General's functions, mandate and powers. The Act establishes an independent relationship between the Auditor-General and the Australian Parliament.
2. The Independent Auditor of the ANAO has led and undertaken a performance audit of quality control around financial statements audits performed by the ANAO.<sup>1</sup>

## Background to the performance audit

3. The Auditor-General Ian McPhee stated that *'the pursuit of quality in audit work is a constant journey for all auditors and all audit organisations'* in a presentation to the 5th Symposium of Supreme Audit Institutions on 2 March 2012.
4. Legislation requires the Auditor-General to set standards for the conduct of audits by the ANAO. The Auditor-General has adopted standards published by the Australian Auditing and Assurance Standards Board (AUASB) and the Accounting Professional and Ethical Standards Board (APESB).
5. The AUASB has issued ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements*. ASQC 1 deals with auditing firms' responsibilities for their system of quality control for audits and reviews of financial reports, other financial information and other assurance engagements.
6. The ANAO has established a system of quality control designed to support and monitor quality in the conduct of financial statements audits (the Quality Assurance Framework).

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<sup>1</sup> Refer to Chapter 1, paragraphs 1.9 to 1.11 for more information on the Independent Auditor.

## Audit objective

7. The objective of the performance audit is to provide an assessment as to whether the Quality Assurance Framework established and maintained by the ANAO is consistent with the requirements of the applicable quality control and ethical standards issued by the ANAO, the AUASB and the APESB, in respect to financial statements audits conducted by the Assurance Audit Services Group (AASG) of the ANAO.

8. This Quality Assurance Framework is designed to support:

- i. financial statements audits to comply with the applicable standards issued by the AUASB, APESB and the Auditor-General under section 24 of the *Auditor-General Act 1997*; and
- i. ANAO personnel to comply with relevant ethical, legal and regulatory requirements.

9. The assessment included quality control as designed and maintained at the policy framework level by the Professional Services Branch (PSB), conducted at the engagement level by AASG, and oversighted by the Executive Board of Management (EBOM). This assessment considered the requirements and guidance contained in the following standards:

- i. *ASQC1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements* issued by the AUASB;
- ii. *ASA 220 Quality Control for Audits of Historical Financial Information* issued by the AUASB;
- iii. *APES 110 Code of Ethics for Professional Accountants* issued by the APESB; and
- iv. *APES 320 Quality Control for Firms* issued by the APESB.

10. Consistent with ASQC1, the performance audit has been structured to consider the policies and procedures established and maintained to address each of the following:

- i. Leadership responsibilities with respect to quality control;
- ii. Compliance with relevant ethical, legal and regulatory requirements;
- iii. Human resources (including the competence, capabilities and commitment to ethical principles of personnel);

- iv. Engagement performance (including matters relevant to promoting consistency in the quality in the performance of financial statements audits, supervision responsibilities and review responsibilities); and
- v. Monitoring of compliance with established policies and procedures.

## Conclusion

11. As at the date of this report, the Quality Assurance Framework established and implemented by the ANAO in respect of financial statements audits is consistent with the relevant requirements of ASQC1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements*.

12. Overall the ANAO, through the AASG, the PSB, and the EBOM, has demonstrated a strong commitment to the establishment and implementation of an effective Quality Assurance Framework to support the conduct of financial statements audits. This commitment is evident through review of the policies, procedures and resources that have been designed and implemented, as well as being reinforced through discussions with the Auditor-General, Deputy Auditor-General, Group Executive Directors, SES Officers and staff of the AASG and PSB.

## Summary of considerations

13. This performance audit has identified four considerations for the ANAO to consider to potentially enhance the Quality Assurance Framework. The inclusion of the considerations does not detract from the overall conclusion provided. The considerations relate to:

- i. Maintaining a central register of potential or actual threats to independence identified in applying the ANAO policy framework in financial statements audits and discussions amongst the Signing Officers. The register would be available for review by the Auditor-General, the GEDs and/or relevant governance committees;
- ii. Supplementing the existing annual independence and ethical confirmations completed for each financial statements audit by audit team members with an additional specific reference to compliance with the ANAO's independence and ethical requirements policies in respect of all financial statements audits performed by ANAO staff;

- iii. Following the audit cycle, completion of a self assessment questionnaire by Executive Directors in respect of the performance of their audits against key aspects of the ANAO Quality Assurance Framework. This information could provide additional input into the overall AASG Transparency Report to EBOM; and
- iv. Enhancing the reporting of the annual inspection program to provide an overall rating for each audit reviewed and enhance the policy guidance relating to the potential consequences that may result from reviews of completed audit files.

## **ANAO response**

14. The proposed report was given to the ANAO for formal comment. The ANAO provided the following summary response, with its full response at Appendix 1.

The ANAO places a high degree of importance on the quality of our audit and the overarching quality control framework. We have made a significant investment in the training of our staff and the supporting systems and processes so that we are able to deliver quality audits in an efficient manner.

Against that background, this performance audit conducted by the Independent Auditor of the ANAO is timely. We welcome the conclusion that our system of quality control over financial audits is sound. We are supportive of the four considerations identified as potential enhancements to our quality framework, with action on one consideration completed, and the balance to be finalised in the 2013–14 financial year.

# **Audit Conclusions and Considerations**





# 1. Introduction

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*This chapter provides background to the Quality Assurance Framework for financial statements audits conducted by the ANAO. It also outlines the objectives, scope and methodology for this performance audit.*

## Background

**1.1** The primary client of the ANAO is the Australian Parliament. The ANAO's main point of contact with Parliament is the Joint Committee of Public Accounts and Audit (JCPAA), although interaction does occur with other parliamentary committees and parliamentarians to support parliamentary priorities, public administration matters and the outcomes of audits.

**1.2** The ANAO's role is to provide Parliament with independent assurance of public sector financial reporting, public administration and accountability. These functions are operationally delivered through the Assurance Audit Services Group (AASG) and the Performance Audit Services Group (PASG). The two audit groups are supported by the Professional Services Branch (PSB) and the Corporate Management Branch (CMB). The PSB provide the overarching quality assurance framework and technical assistance, and the CMB provide practice management related services.

**1.3** The ANAO's audits of financial statements assist Australian Government entities to fulfil their annual accountability obligations under either the *Financial Management and Accountability Act 1997* (FMA Act), the *Commonwealth Authorities and Companies Act 1997* (CAC Act) or the *Corporations Act 2001*.<sup>2</sup>

**1.4** Each year Australian Government entities must publish their financial statements, accompanied by an audit report pursuant to legislative requirements, in their annual reports. In accordance with the legislative requirements, the ANAO audits the financial statements and expresses an opinion on whether the financial statements:

- have been prepared in accordance with the Government's financial reporting framework; and

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<sup>2</sup> The Auditor-General Annual Report 2011-12.

- give a true and fair view (in accordance with Australian Accounting Standards) of the entity's financial position, financial performance and cash flows.<sup>3</sup>

**1.5** The ANAO, through the AASG, performs the independent audits of the financial statements of all Australian Government controlled entities. In 2011–12, the AASG performed 261 financial statements audit engagements.

**1.6** The AASG, undertakes the financial statements audits either using ANAO staff, or through project-managed arrangements with private sector audit firms. For all audits, a Signing Officer is assigned and has overall responsibility for the audit and the signing of the auditor's report.

**1.7** Of the 261 financial statements audit engagements, 92 were performed using ANAO staff and 169 audits were project-managed where, oversighted by an ANAO Signing Officer, a private sector audit firm is engaged to undertake the audit. As outlined in paragraphs 5.24 and 5.25, AASG applies guiding principles to determine which audits will be performed by ANAO staff. AASG's core skill set is auditing the General Government Sector, particularly departments of state, regulatory bodies and security entities.

**1.8** In 2011–12, the audits performed by AASG staff consisted of over 85 per cent of both the General Government Sector and whole of government income and expenses.

## **This Performance Audit**

### ***The Independent Auditor***

**1.9** Mr Geoff Wilson, the Independent Auditor for the ANAO, has undertaken this performance audit. Mr Geoff Wilson is the Chief Executive Officer of KPMG Australia and has been a partner of the firm since 1990.

**1.10** Mr Geoff Wilson, was assisted in the conduct of the performance audit by Mr Julian Bishop and Ms Jessica Regueiro. Mr Julian Bishop is a partner of KPMG Australia and leads KPMG's Audit Quality group. Ms Jessica Regueiro is a senior audit manager in KPMG's audit group.

**1.11** Pursuant to Schedule 2<sup>4</sup> of the *Auditor-General Act 1997*, the Independent Auditor is appointed by the Governor-General for a term of

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<sup>3</sup> The Auditor-General Annual Report 2011-12.

<sup>4</sup> Schedule 2, Section 1 of the *Auditor-General Act 1997*.

three years and not more than five years. Mr. Geoff Wilson was appointed as the Independent Auditor of the ANAO on 24 April 2009.

### **Audit objective**

**1.12** The objective of the performance audit is to provide an assessment as to whether the Quality Assurance Framework established and maintained by the ANAO is consistent with the requirements of the applicable quality control and ethical standards issued by the ANAO, the AUASB and the APESB, in respect to financial statements audits conducted by the AASG.

### **Audit scope**

**1.13** The scope of this performance audit was developed after consultation with key stakeholders and consideration of the requirements for the development of a framework of quality control for financial statements audits.

**1.14** Key stakeholders interviewed or otherwise involved in the scoping process are outlined below in paragraph 1.17.

**1.15** The performance audit did not encompass:

- evaluation of the appropriateness of individual financial statements audit reports issued by the ANAO. The performance audit did not extend to inspection of individual audit files;
- acceptance and continuance of client relationships and specific engagements<sup>5</sup>; and
- quality control around assurance engagements other than financial statements audits.

### **Audit methodology**

**1.16** This performance audit was conducted in accordance with Australian Auditing and Assurance Standard ASAE 3500 *Performance Engagements*<sup>6</sup> and examined:

- Leadership responsibilities with respect to quality control;

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<sup>5</sup> The Auditor-General is mandated to audit the financial statements of Australian Government agencies by the *Financial Management and Accountability Act 1997*, and the financial statements of Commonwealth Authorities, Commonwealth companies and their respective subsidiaries by the *Commonwealth Authorities and Companies Act 1997*.

<sup>6</sup> *Standard on Assurance Engagements ASAE 3500 Performance Engagements* (July 2008) issued by the Auditing and Assurance Standards Board.

- Compliance with relevant ethical, legal and regulatory requirements;
- Human resources (including the competence, capabilities and commitment to ethical principles of personnel);
- Engagement performance (including matters relevant to promoting consistency in the quality in the performance of financial statements audits, supervision responsibilities and review responsibilities); and
- Monitoring of compliance with established policies and procedures.

**1.17** During the course of the performance audit, interviews were held with the:

- Auditor-General and Deputy Auditor-General;
- ANAO Audit Committee;
- Secretary of the JCPAA;
- AASG Group Executive Directors;
- Executive Directors of the AASG;
- Executive Director and staff of the PSB;
- Executive Director of the CMB; and
- AASG audit managers and staff responsible for financial statements audits.

**1.18** The focus of the interviews and the review of key documentation were to:

- understand the ANAO's Quality Assurance Framework established for financial statements audits; and
- obtain evidence to support the assessment of consistency of the Quality Assurance Framework with ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements*.

Report structure

1.19 This audit report is structured as follows:

|  |  |
|--|--|
| <p><b>Chapter 2</b><br/><b>Leadership responsibilities for quality control</b></p> | <p>Examines the:</p> <ul style="list-style-type: none"><li>• Policies and procedures established and designed to promote an internal culture recognising that quality is essential in performing financial statements audits;</li><li>• Individuals or groups assigned ultimate responsibility for the ANAO’s Quality Assurance Framework; and</li><li>• Policies and procedures established to ensure those individuals or bodies assigned with operational responsibility have sufficient and appropriate experience and ability, and the necessary authority to assume that responsibility.</li></ul> |
| <p><b>Chapter 3</b><br/><b>Relevant ethical requirements</b></p>                   | <p>Examines the policies and procedures designed to:</p> <ul style="list-style-type: none"><li>• Provide the ANAO with reasonable assurance that its personnel comply with relevant ethical requirements;</li><li>• Communicate independence requirements to its personnel; and</li><li>• Identify and evaluate circumstances and relationships that create threats to independence, and to take appropriate action to eliminate those threats or reduce them to an acceptable level.</li></ul>  |

|   |  |
|---|--|
| <b>Chapter 4</b><br><b>Human</b><br><b>resources</b>        | <p>Examines the policies and procedures designed to provide the ANAO with reasonable assurance that it has sufficient personnel with the competence, capabilities and commitment to ethical principals necessary to:</p> <ul style="list-style-type: none"> <li>• Perform financial statements audits in accordance with Auditing Standards set by the Auditor-General that must be complied with by persons performing an audit in accordance with the requirements of the <i>Auditor-General Act 1997</i>, relevant ethical requirements and applicable legal and regulatory requirements; and</li> <li>• Enable the ANAO to issue audit reports that are appropriate in the circumstances.</li> </ul> |
| <b>Chapter 5</b><br><b>Engagement</b><br><b>performance</b> | <p>Examines the policies and procedures to determine whether they include:</p> <ul style="list-style-type: none"> <li>• Matters relevant to promoting consistency in the quality of engagement performance;</li> <li>• Supervision responsibilities; and</li> <li>• Review responsibilities.</li> </ul>  |
| <b>Chapter 6</b><br><b>Monitoring</b>                       | <p>Examines the monitoring processes designed to provide the ANAO with reasonable assurance that the policies and procedures established by the Quality Assurance Framework, are relevant, adequate and operating effectively.</p>   |

## 2. Leadership responsibilities for quality control

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### ASQC 1 Requirements

**2.1** The firm shall establish policies and procedures designed to promote an internal culture recognising that quality is essential in performing engagements. Such policies and procedures shall require the firm's Chief Executive Officer (or equivalent) or, if appropriate, the firm's managing board of partners (or equivalent) to assume ultimate responsibility for the firm's systems of quality control.

**2.2** The firm shall establish policies and procedures such that any person assigned operational responsibility for the firm's system of quality control by the firm's chief executive officer or managing board of partners has sufficient and appropriate experience and ability, and the necessary authority, to assume that responsibility.

#### *ANAO Context*

**2.3** The definition of a firm is an entity of assurance practitioners and ASQC 1 states that the term should be read as referring to a public sector equivalent where relevant. One public sector equivalent is the ANAO. The *Auditor-General Act 1997* establishes the ANAO and states that the function of the ANAO is to assist the Auditor-General in performing the Auditor-General's functions. The *Auditor-General Act 1997* states that the functions of the Auditor-General include the auditing of financial statements. Accordingly, references to the firm should be read as referring to the ANAO.

**2.4** In the ANAO, the Chief Executive Officer is the Auditor-General. References to the Chief Executive Officer should be read as referring to the Auditor-General. The ANAO does not have a statutory board of directors, it has an Executive Board of Management (EBOM) that performs an advisory function in support of the Auditor-General.

### Audit Procedures

**2.5** Interviews with regards to leadership responsibilities for quality control were conducted with the:

- Auditor-General and Deputy Auditor-General;

- AASG Group Executive Directors (GEDs) ;
  - Executive Directors in the AASG; and
  - APS staff in the AASG
- 2.6 Key documentation as detailed in Appendix Two was reviewed.
- 2.7 The focus of the interviews and review of key documentation were to:
- identify and consider the appropriateness of the individuals with ultimate and operational responsibility for the Quality Assurance Framework and communication of this responsibility to the AASG; and
  - identify and assess the appropriateness of the policies and procedures established in relation to leadership responsibilities within the Quality Assurance Framework.

## **ANAO Implementation**

### *Leadership responsibility for quality control*

2.8 The *Auditor-General Act 1997* establishes the position of the Auditor-General for the Commonwealth as an Independent Officer of the Parliament.

2.9 The *Auditor-General Act 1997* Division 1, states that the Auditor-General's functions include auditing financial statements of Commonwealth agencies, authorities and companies and their subsidiaries.

2.10 Division 5 of the *Auditor-General Act 1997* provides that the Auditor-General must set auditing standards that are to be observed by persons performing the audits. Under the *Auditor-General Act 1997* the ANAO has been established to assist the Auditor-General in performing the Auditor-General's functions. ANAO staff are employed under the *Public Service Act 1999*.

2.11 The ANAO has established a Quality Assurance Framework designed to provide reasonable assurance that audits performed by the ANAO comply with applicable professional standards and relevant regulatory and legal requirements and that audit reports issued are appropriate in the circumstances.

2.12 The Quality Assurance Framework describes how the ANAO meets the requirements of APES 320 *Quality Control for Firms* and ASQC 1 *Quality Control for Firms that perform Audits and Reviews of Financial Reports and Other Financial Information and Other Assurance Engagements*. The Quality Assurance Framework states the Auditor-General has ultimate responsibility for the quality control of audits conducted by the ANAO.



### *Operational responsibility for quality control*

**2.13** The Quality Control Framework states that organisationally the Deputy Auditor-General carries responsibility for ensuring the system of quality control satisfies the requirements of applicable standards and is assisted by the Group Executive Directors (GEDs) in fulfilling this responsibility.

**2.14** Within the ANAO, the PSB is responsible for establishing and maintaining the Quality Assurance Framework. This framework includes the overarching financial statements audit policy framework, the financial statements audit methodology and the quality monitoring program over all financial statements audit engagements.

**2.15** The GEDs are Senior Executive Service Band 2 Officers. The requirements for ensuring the SES Officers have sufficient and appropriate experience and ability is mandated in the *Public Service Commissioner's Directions Act 1999*. The *Public Service Commissioner's Directions Act 1999* chapter 6 paragraph 6.1(2) states that an Agency Head must put in place measures to ensure that SES Officers are effectively deployed in the Agency and to monitor the skills required for SES Officer positions in the Agency.

**2.16** The GEDs operationally report to the Deputy Auditor-General and also engage with the Auditor-General as needed in relation to specific audit matters. The GEDs are responsible for the delivery of services to the required quality within the AASG.

**2.17** There are currently three GEDs in the AASG. The GEDs are members of the Executive Board of Management (EBOM). The EBOM is chaired by the Auditor-General and is responsible for setting and monitoring the ANAO's strategic direction, oversight of business opportunities and risks, and managing the ANAO workforce. The GEDs are also members of the following committees: the ANAO Audit Committee, Information Strategy committee, People and Capability Strategy committee, and the Qualifications and Accounting Policy committee.

**2.18** Executive Directors, who are SES Band 1 Officers, report to the GEDs and have a delegated responsibility for individual financial statements audits as Signing Officers. Together with the GEDs they provide a leadership role in implementing the ANAO's policies and procedures across the service group and in the delivery and management of quality audit services.

**2.19** For the purposes of this report, the Signing Officer is the equivalent to the engagement partner under ASCQ 1. In the ANAO, a Signing Officer is

primarily either the Auditor-General, or as delegate, a GED or an Executive Director.

**2.20** In some instances, a Senior Director, mentored by a GED, may also be a Signing Officer. Refer to paragraphs 4.15 to 4.17 for further commentary.

**2.21** In 2011–12, the Auditor-General was the Signing Officer for 11 Commonwealth entities. To support the Auditor-General, the Engagement Executive role has been assigned to a GED or Executive Director. They assist with some of the responsibilities of the engagement partner. Refer to paragraph 4.13 to 4.20 for further commentary.

### *Key Communication Forums*

**2.22** To assist the GEDs in the delivery and management of quality audit services, the AASG has established the Signing Officer Technical Forum (SOTF) and the Executive Level Staff forum.

**2.23** The SOTF is attended by all Signing Officers, the IT Audit Executive Director, the PSB Executive Director and the Audit Methodology Manager.

**2.24** The SOTF is held fortnightly and provides participants with an opportunity to discuss accounting and auditing issues relevant to the performance of financial statements audits and to facilitate open and frank discussion on these issues. The aim is to promote consistent application of accounting and auditing matters by Signing Officers across AASG. Minutes of the meetings are prepared and published on the AASG intranet.

**2.25** The Executive Level Staff forum is attended by Senior Directors. Senior Directors are Executive level 2 staff. This forum is held at least quarterly. The purpose is to provide an opportunity for discussion of general audit matters as well as accounting and auditing technical issues. Minutes of the meeting are prepared and published on the AASG intranet.

**2.26** AASG is organised into four audit groups along Australian Government portfolio lines, an IT Audit group and an Assurance Projects Branch. The groups meet monthly to discuss key administrative and audit matters. The GEDs, the Executive Director of the PSB and SES Officers use the meetings as a forum to discuss audit quality, operational messages and other ANAO issues with all AASG staff.

### *Oversight by ANAO Executive*

**2.27** An annual AASG Business Plan is published and distributed. The plan details the key messages, initiatives and targets for the financial year. The key messages for the 2012–2013 year include:

- AASG's continued commitment to providing quality financial statements and assurance services to the Parliament;
- being a leader in public sector assurance; and
- being independent and responsive to Parliament and the ANAO's audit clients.

**2.28** The Auditor-General, Deputy Auditor-General, the GEDs and the Executive Director of the Professional Services Branch meet on a weekly basis to discuss operational matters. Items discussed include audit quality matters, audit client matters, practice management matters, and oversight of the status of financial statements audits. To assist in the oversight of AASG's financial statements audits, the GEDs provide the Auditor-General and Deputy Auditor-General with a weekly 'Hot Issues' report that is compiled from an enterprise wide project management tool (Changepoint) and input from AASG Engagement Executives.

**2.29** The AASG submits an annual AASG Transparency Report to the EBOM. The purpose of this report is to document the AASG's compliance with the Quality Assurance Framework. The 2011–2012 transparency report discusses key aspects of the Quality Assurance Framework and documents progress against each.

## Considerations

**2.30** No considerations noted.

## Conclusion

**2.31** As at the date of this report, the activities and responsibilities established by the ANAO's Quality Assurance Framework in relation to leadership responsibilities for financial statements audits, are consistent with the relevant requirements of ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements*.

## 3. Relevant ethical requirements

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### ASQC 1 Requirements

**3.1** The firm shall establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements. The firm is required to comply with relevant ethical requirements, including those pertaining to independence when performing audits and reviews and other assurance engagements as defined in ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*.

**3.2** The firm shall establish policies and procedures designed to provide it with reasonable assurance that the firm, its personnel and, where applicable, others subject to independence requirements (including network firm personnel) maintain independence where required by relevant ethical requirements, laws and regulations. Examples of independence requirements that may be applicable are addressed in the *Corporations Act 2001* Part 2M.3 Division 3. Such policies and procedures shall enable the firm to:

- (a) communicate its independence requirements to its personnel and, where applicable, others subject to them; and
- (b) identify and evaluate circumstances and relationships that create threats to independence, and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards or, if considered appropriate, to withdraw from the engagement where withdrawal is possible under applicable law or regulation.

**3.3** Such policies and procedures shall require:

- (a) engagement partners to provide the firm with relevant information about client engagements, including the scope of services, to enable the firm to evaluate the overall impact, if any, on independence requirements; and
- (b) personnel to promptly notify the firm of circumstances and relationships that create a threat to independence so that appropriate action can be taken.

- (c) the accumulation and communication of relevant information to appropriate personnel so that:
  - i. the firm and its personnel can readily determine whether they satisfy independence requirements;
  - ii. the firm can maintain and update its records relating to independence; and
  - iii. the firm can take appropriate action regarding identified threats to independence that are not at an acceptable level.

**3.4** The firm shall establish policies and procedures designed to provide it with reasonable assurance that it is notified of breaches of independence requirements, and to enable it to take appropriate actions to resolve such situations. The policies and procedures shall include requirements for:

- (a) Personnel to promptly notify the firm of independence breaches of which they become aware;
- (b) The firm to promptly communicate identified breaches of these policies and procedures to:
  - iv. The engagement partner who, with the firm, needs to address the breach; and
  - v. Other relevant personnel in the firm and where appropriate, the network, and those subject to the independence requirements who need to take appropriate action; and
- (c) Prompt communication to the firm, if necessary, by the engagement partner and the other individuals referred to in subparagraph 23 (b)(ii) of this Standard, of the actions taken to resolve the matter, so that the firm can determine whether it should take further action.

**3.5** At least annually, the firm shall obtain written confirmation of compliance with its policies and procedures on independence from all firm personnel required to be independent by relevant ethical requirements, and applicable legal and regulatory requirements.

**3.6** The firm shall establish policies and procedures:

- (a) Setting out criteria for determining the need for safeguards to reduce the familiarity threats to an acceptable level when using the same senior personnel on an assurance engagement over a long period of time; and
- (b) Requiring, for audits of financial reports of listed entities, the rotation of the engagement partner and the individuals responsible for engagement quality control review, and where applicable, others subject to rotation requirements, after a specified period in compliance with relevant ethical requirements.

**3.7** ASQC 1 states the following with respect to requirements for public sector entities:

- Statutory measures may provide safeguards for the independence of public sector auditors. However, threats to independence may still exist regardless of any statutory measures designed to protect it. Therefore, in establishing the policies and procedures required, the public sector auditor may have regard to the public sector mandate and address any threats to independence in that context.
- Listed entities are not common in the public sector. However, there may be other public sector entities that are significant due to size, complexity or public interest aspects, and which consequently have a wide range of stakeholders. Therefore, there may be instances when a firm determines, based on its quality control policies and procedures, that a public sector entity is significant for the purposes of expanded quality control procedures.
- In the public sector, legislation may establish the appointments and terms of office of the auditor with engagement partner responsibility. As a result, it may not be possible to comply strictly with the engagement partner rotation requirements envisaged for listed entities. Nonetheless, for public sector entities considered significant, it may be in the public interest for public sector audit organisations to establish policies.

## Audit Procedures

3.8 Interviews in regards to ethical requirements were conducted with the:

- Auditor-General and Deputy Auditor-General;
- AASG Group Executive Directors (GEDs);
- Executive Directors in the AASG;
- Staff in the AASG; and
- Executive Director and staff of the Professional Services Branch (PSB).

3.9 The focus of the interviews and review of key documentation was to identify ethical and independence mandates of the ANAO and communication of these requirements to all staff in the AASG.

3.10 The following documents were reviewed:

- Key documentation as detailed in Appendix Two; and
- Relevant ANAO reporting templates.

3.11 Procedures performed included understanding and analysing the process for:

- Managing and monitoring compliance with ethical and independence requirements by the Engagement Executive, ANAO staff, and ANAO contractors on financial statements audits; and
- Implementing safeguards to any identified threat to independence.

## ANAO Implementation

*Policy designed to provide the ANAO with reasonable assurance that the ANAO and its personnel maintain independence where required by relevant ethical requirements, laws and regulations.*

3.12 The Australian Public Service (APS) values and code of conduct are a broad set of principles mandated in sections 10 and 13 of the *Public Service Act 1999*. The values and code of conduct is the framework for the behaviour of APS employees. Under amendments to the *Public Service Act 1999*, there are five values, including that the APS has the highest ethical standards.

3.13 The ANAO has a publication titled *A Guide to conduct in the Australian National Audit Office*. The guide puts into practice the APS values and code of conduct and forms the basis of the independence and ethical requirements for the ANAO. The guide provides information on the conduct expected of ANAO

staff in their performance of their responsibilities, including interactions with clients, colleagues and other stakeholders and provides guidance on the application of APS values. The guide is applicable to all employees of the ANAO.

**3.14** *A Guide to conduct in the Australian National Audit Office* describes how the APS values are applied and include:

- acting with honesty and integrity;
- acting with care and diligence;
- treating individuals with respect, courtesy and without harassment;
- complying with Australian laws and complying with any lawful and reasonable direction;
- maintaining appropriate confidentiality, disclosure and reasonable steps to avoid, any conflict of interest in connection with ones work;
- use of Australian Government resources for a proper purpose;
- providing accurate, evidence based information in response to work related request for information;
- not making improper use of inside information, status, power or authority in order to gain, or seek to gain, a benefit or advantage for one's own advantage; and
- acting in a way that upholds APS values and complying with conduct prescribed by regulations.<sup>7</sup>

**3.15** The guide is supported by the ANAO's e-learning module on Values and Code of Conduct. Since the implementation of this module in August 2012, all Engagement Executives have completed the module.

**3.16** The independence policy of the ANAO is documented in the Policy and Audit Administration Manual (PAAM). The independence policy applies to staff and contractors working as part of an ANAO financial statements audit team. Contractors working as part of an ANAO audit team are considered members of the audit team and must meet the independence requirements as though they were ANAO staff.

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<sup>7</sup> Guide to conduct in the Australian National Audit Office.



**3.17** The policy states staff and contractors must have independence of mind and in appearance and documents five categories of threats to independence including: self interest; self review; advocacy; familiarity threats; and intimidation threats. The independence policy provides examples of situations where threats to independence may arise including: financial arrangements with audit clients, personal or business dealings with the audit client, employment relationship and involvement in senior manager recruitment for clients.

**3.18** AASG contracts private sector audit firms to assist in the conduct of selected audits (project-managed audits). The Auditor-General, or his delegate, continues to exercise the statutory role to sign the auditor's report for these project-managed audits and takes responsibility for the quality of the audit.

**3.19** The ANAO independence policy applies equally to financial statements audits performed by ANAO staff or conducted under project management arrangements.

**3.20** The ANAO policy that governs the provision of other services to ANAO audit clients is documented in PAAM 40.3. All private sector audit firms under project management arrangements are required to apply APES 110 *Code of Ethics for Professional Accountants* including the need to identify threats, identify safeguards for all threats (other than those that are clearly insignificant) and apply those safeguards. The policy imposes the following restrictions:

- Prohibited services: In addition to other services expressly prohibited by APES 110 *Code of Ethics for Professional Accountants*, the ANAO prohibits private sector audit firms under project management arrangements from providing tax advice (strategic or planning), accounting, financial services for entities material to the consolidated Commonwealth financial statements and internal audit services where management responsibility is assumed.
- Other services: All other services requested to be provided by ANAO contractors must be pre-approved by the Engagement Executive and be accompanied by formal documentation prepared by the ANAO contractor. The documentation must detail the proposed service, proposed fees and a description of the procedures to monitor the other services. The request must be approved by the firm's independence panel or partner. The Engagement Executive is required to document the other services proposed, the nature of the threat, the safeguards

considered, consultation undertaken and if the threat can be reduced to an acceptable level.

- Fee parity: Fee parity should be maintained over the period of a proposed or existing ANAO contract. If the total value of other services provided, or to be provided, by the firm exceeds the audit fee the firm receives from the ANAO, this is considered to be a potentially significant threat to the firm's independence. All proposed 'other services' must be discussed with the AASG GEDs. In addition to the policy statement, the GEDs have provided Engagement Executives with specific guidance on the policy's broad principles, additional consideration points to be included in the Engagement Executive analysis and additional circumstances where the Engagement Executive should seek approval from the GEDs.

**3.21** Proposed other services to be delivered by contractors to entities audited by the ANAO must be approved by the ANAO prior to provision of the service in accordance with the ANAO independence policy. On completion of project-managed audits, the engagement partner of the private sector audit firm is required to provide a representation letter to confirm that the audit firm:

- has complied with the independence requirement of applicable legislation and APES 110 *Code of Ethics for Professional Accountants*;
- has not entered into arrangements for, or provided other services to, the audit client during the year without the written consent of the ANAO;
- does not have, or the other services have not given rise to, any conflict of interest or economic dependence which could jeopardise the independence of the audit firm; and
- provided an independence declaration under section 307C, if the audit is undertaken in accordance with the *Corporations Act 2001*.

*Policy and procedures designed to provide the ANAO with relevant information about client engagements, including the scope of services, to enable the firm to evaluate the overall impact, if any, on independence requirements.*

**3.22** The Engagement Executive is required to disclose to the audit client's audit committee at least annually, the nature of any other services provided by an ANAO contractor to the audit client and the fees paid or payable for those services. This information is communicated to audit committees through written reports or as part of a presentation by the Signing Officer.

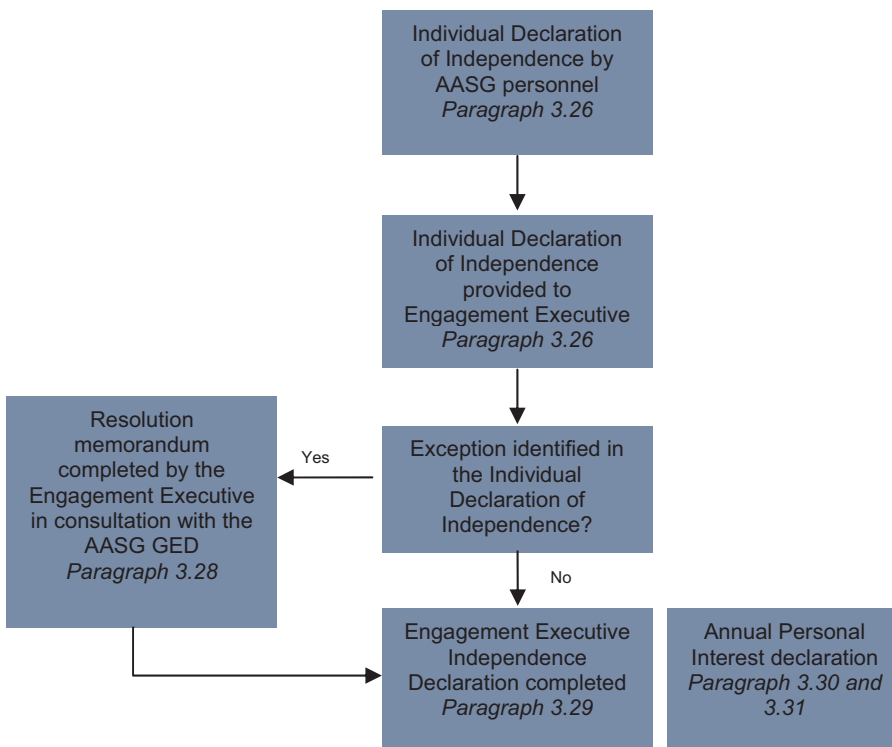
**3.23** At the completion of the audit, contractors must provide the ANAO a summary of the other services provided to each relevant entity during the audit cycle. This listing is reconciled to the services approved by the ANAO during the audit cycle and discrepancies, if any, are investigated.

**3.24** The AASG, through its annual Transparency Report, communicates to the Deputy Auditor-General and the EBOM, the nature and fees for all other services for audits under project management arrangements and the total fees payable by the ANAO to each private sector audit firm.

**3.25** Figure 1 illustrates the independence declaration process. This identifies the policies and procedures that require ANAO personnel to promptly notify the ANAO of circumstances and relationships that might create a threat to independence so appropriate action can be taken.

**Figure 1**

### Independence Declaration Process



**3.26** All ANAO staff, including contracted resources, engaged in financial statements audits, regardless of their role in the audit, are required to complete an Individual Declaration of Independence prior to commencing every audit. The declaration must be provided to the Engagement Executive and included with the audit documentation after review by the Engagement Executive.

**3.27** The Individual Declaration of Independence requires a staff member to declare they have read and understood the ANAO independence policy and APES 110 *Code of Ethics for Professional Accountants* and that they hold a current Australian Government security clearance to a level appropriate for the information and assets they will have access to during the audit.<sup>8</sup>

**3.28** If an exception is identified, the Engagement Executive is required to consider and evaluate the impact of the exception and complete an Engagement Executive Independence Resolution Memorandum. The relevant GED is consulted regarding the matter. If the matter is in relation to an Executive Director, this is discussed with the Auditor-General.

**3.29** Prior to the issue of the audit report, the Engagement Executive is required to complete an Engagement Executive Independence Confirmation. The confirmation requires the Engagement Executive to confirm they were provided with an Individual Declaration of Independence by each staff member on the audit (including contractors and contract firms) and appropriate action has been taken to respond and address any exceptions noted in the Individual Declaration of Independence, if applicable. The Engagement Executive Independence Confirmation is required to be included as mandatory audit documentation.

**3.30** Annually all Senior Executive Service (SES) Officers, staff members acting in SES positions for more than three months, and other individuals the Auditor-General believes may have similar decision making responsibilities<sup>9</sup>, are required to make a declaration of independence to the Auditor-General. The declaration is documented in the Declaration of Personal Interests retained by the Auditor-General.

**3.31** The Declaration of Personal Interests requires the GEDs and the Executive Directors to disclose any interests or relationships that may be a conflict of interest or perceived to be a conflict of interest such as: real estate

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<sup>8</sup> Financial Statements and Other AASG assurance engagements Individual Declaration of Independence.

<sup>9</sup> Australian National Audit Office Declaration of Personal Interests.

investments, shareholdings, trusts or nominee companies, company directorships or partnerships, other significant sources of income, significant liabilities, gifts, private business or social/personal relationships and paid, unpaid or voluntary outside employment.

**3.32** All GEDs, Executive Directors and Senior Directors are required to complete a quarterly Certificate of Compliance. The Certificate of Compliance covers ethical matters, expenditure, procurement, and accountability. The results are reported to the EBOM.

*Policy and procedures requiring communication of ethical requirements to appropriate personnel, documentation of independence and the action taken by the ANAO to address any identified threats*

**3.33** The PSB conducts monthly Technical Updates. The Technical Updates discuss key issues relating to auditing, accounting, ethical and legislative requirements. Recent Technical Updates that discussed ethical and legislative requirements included key changes to requirements of the APESB *Code of Ethics* issued by the APESB effective 1 July 2011, the Finance Minister's Orders for 2012–2013 and an Auditor Independence Requirements refresher in May 2013. Attendance at Technical Updates is tracked and all AASG staff are expected to attend all Technical Updates.

**3.34** Contracts governing the use of contract resources on AASG audits require contractors to identify any existing or potential conflicts of interest and the manner in which they will be resolved.

**3.35** Private sector audit firms engaged under project-managed contracts are required to comply with the conflict of interest provisions and other independence requirements contained in the contract with the ANAO during the service period and the engagement partner of the contractor firm is required to represent at audit completion, that the firm has complied with the ANAO's independence and ethics policies. Refer to paragraphs 3.20 to 3.21 for further commentary.

**3.36** Contractors engaged to work on financial statements audits performed by the ANAO are required to comply with the ANAO's policies as discussed in paragraphs 3.25 to 3.30.

*ANAO policies and procedures relating to confirmation of independence by personnel*

**3.37** All GEDs, Executive Directors and Executive Level officers are required to complete a quarterly Certificate of Compliance. The Certificate of

Compliance covers ethical matters, expenditure, procurement and accountability.

*ANAO policies and procedures setting out criteria for determining the need for safeguards to reduce familiarity threats to an acceptable level.*

**3.38** The ANAO's Independence Policy states that no key personnel (defined as the Engagement Executive and the Quality Review Executive) in a financial statements audit team for a significant public sector entity shall be a member of the audit team for more than five years, within a seven year period. The GEDs may decide there are circumstances where the involvement of key personnel in an audit of a significant public sector entity up to a seven year period does not constitute a familiarity threat.<sup>10</sup> The Auditor-General approves the allocation of Signing Officers and the involvement of key personnel in a financial statements audit for a period greater than five years.

**3.39** The ANAO maintains a register that documents the number of years Signing Officers, Engagement Executives and Quality Review Executives have been a member of an audit team. No Signing Officer, Engagement Executive or Quality Review Executive has been a member of an audit team for longer than a seven year period.

## Considerations

**3.40** Included below is an observation for the ANAO to consider to potentially enhance the Quality Assurance Framework with respect to ethical requirements. The inclusion of this consideration does not detract from the overall conclusion provided below.

### Consideration 1

**3.41** The ANAO's independence policy requires:

- (a) ANAO staff, contract firms of project managed audits and contract-in personnel to complete either an Individual Declaration of Independence or Contractor's Representation Letter in regards to each financial statements audit for each individual or firm that was a member of the engagement team. The Engagement Executive will review the declarations and evaluate the results. The Engagement Executive will complete an Independence Resolution Memorandum whenever an independence declaration identifies an actual or potential

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<sup>10</sup> PAAM 40.2 ANAO Independence Policy.

threat or where an independence threat has existed during the course of the audit. The Independence Resolution Memorandum is completed in consultation with the GEDs. The Independence Resolution Memorandum is required to be included in the audit file.

- (b) Annually, all SES Officers, staff members acting in an SES position for more than three months, and other individuals that the Auditor-General believes may have similar decision making responsibilities<sup>11</sup>, are required to make a declaration of independence to the Auditor-General.
- (c) All GEDs, Executive Directors and Executive Level officers are required to complete a quarterly Certificate of Compliance. The Certificate of Compliance covers ethical matters, expenditure, procurement and accountability.

**3.42** Due to the number of AASG employees, relative consistency in the client base, nature and extent of services, the frequency and extent of discussions amongst the Signing Officers regarding potential or actual breaches to independence or ethics and values does occur on a timely basis.

**3.43** The ANAO could consider the benefits of also maintaining a central register of potential or actual threats to independence. Engagement Executives could populate the register each time they identify a potential or actual threat to independence, in addition to completing the Independence Resolution Memorandum.

**3.44** The register would be available for review by the Auditor-General, Deputy Auditor-General, the GEDs and/or relevant governance committees to assess:

- frequency and nature of items arising;
- emerging issues;
- effectiveness of policies and procedures to address recurring or pervasive matters; and
- compliance with key directives of the ANAO's leadership group.

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<sup>11</sup> Australian National Audit Office Declaration of Personal Interests.

## Consideration 2

**3.45** ANAO staff (including personnel contracted from external firms) and contract firms are required to complete an Individual Declaration of Independence and the ANAO engagement executive and the partner of the contract firm (where relevant) complete a declaration that have independence declarations for all audit team members and have satisfactorily resolved all actual or potential independence issues.

**3.46** In addition, all SES Officers, staff members acting in SES positions for more than three months and other individuals the Auditor-General believes may have similar decision making responsibilities, are required to make an annual declaration of independence to the Auditor-General. All signing officers and senior directors complete a quarterly certificate of compliance sign-off that includes ethical behaviours and specific Financial Management and Accountability Act requirements.

**3.47** All ANAO staff are required to be Australian citizens, hold a current security clearance, and comply with legislated Australian Public Service code of conduct and values. Under the Protective Security Policy Framework of the Australian Government and ANAO policy, audit information is controlled on a 'need to know' basis. Audit information is held on client specific databases with strict access controls which limit access to relevant audit team members.

**3.48** The ANAO could consider including in the current declarations of independence, required for each audit, specific reference to compliance with the ANAO's independence and ethical requirements policies in respect of all financial statements audits performed by ANAO staff.

## Conclusion

**3.49** As at the date of this report, the activities and responsibilities established by the ANAO's Quality Assurance Framework in relation to ethical requirements for financial statements audits are consistent with the relevant requirements of ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements*.



## 4. Human resources

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### ASQC 1 Requirement

**4.1** The firm shall establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the competence, capabilities, and commitment to ethical principles necessary to:

- (a) perform engagements in accordance with AUASB Standards, relevant ethical requirements, and applicable legal and regulatory requirements; and
- (b) enable the firm or engagement partners to issue reports that are appropriate in the circumstances.

**4.2** The firm shall assign responsibility for each engagement to an engagement partner and shall establish policies and procedures requiring that:

- (a) the identity and role of the engagement partner are communicated to key members of client management and those changed with governance;
- (b) the engagement partner has the appropriate competence, capabilities, and authority to perform the role; and
- (c) the responsibilities of the engagement partner are clearly defined and communicated to that partner.

**4.3** The firm shall also establish policies and procedures to assign appropriate personnel with the necessary competence, and capabilities to:

- (a) perform engagements in accordance with AUASB Standards, relevant ethical requirements, and applicable legal and regulatory requirements; and
- (b) enable the firm or engagement partners to issue reports that are appropriate in the circumstances.

### Audit Procedures

**4.4** Interviews in regards to human resources were conducted with the:

- Auditor-General and Deputy Auditor-General;
- AASG Group Executive Directors (GEDs);

- Executive Directors in the AASG;
- Executive Director and staff of the Professional Services Branch (PSB);
- Executive Director of Corporate Management Branch (CMB); and
- Director of Learning and Development in the CMB.

4.5 The focus of the interviews and review of key documentation was recruitment, learning, development, performance review and other ANAO policy requirements relating to AASG staff and communication of these requirements to all staff in the AASG.

4.6 The following documents were reviewed:

- documentation as detailed in Appendix Two; and
- ANAO reporting templates that support the communication of the final audit outcome.

4.7 Procedures included understanding and analysing the process for:

- assignment of the Quality Review Executives, Engagement Executives and Signing Officers to financial statements audits;
- assignment of APS staff to financial statements audits;
- recruitment of APS staff in line with the *Public Service Act 1999*; and
- performance assessments.

## ANAO Implementation

*Policies and procedures designed to provide the ANAO with reasonable assurance that it has sufficient personnel with the competence, capabilities and commitments to ethical principles necessary to perform financial statements audits and the ANAO to issue audit reports that are appropriate in the circumstances.*

4.8 The GEDs have developed an Assurance Audit Service Group Workforce Plan covering the period 2011–2014. The plan is a roadmap for managing the AASG and identifies and addresses five key areas: attracting talent, retaining talent, retaining knowledge, professionalism and skilling, and effective management of change. The plan documents the key strategic objectives, and the initiatives identified to address each objective; as well as a basis to evaluate performance over the period. The workforce plan is a key tool underpinning the AASG's policies and procedures relating to audit quality.

**4.9** The ANAO conducts a recruitment process for all APS positions, including graduate positions. The position is advertised through a variety of means including the APS Employment Gazette, newspapers, internet and the ANAO website. The selection process must comply with requirements of the *Public Service Act 1999*. The selection process includes the submission of an application by each candidate. The ANAO will short list candidates and each candidate is required to undertake an assessment process. The assessment process includes an interview and specific capability exercises. Psychometric testing is commonly used in the ANAO's external recruitment processes.

**4.10** The ANAO Enterprise Agreement 2011–2014 applies to all ANAO staff. The GEDs and Executive Directors are employed under individual contracts. The Enterprise Agreement provides a set of employment conditions and includes: classification structure, remuneration, work level standards, employment conditions, miscellaneous items and performance management.

**4.11** The ANAO Enterprise Agreement 2011–2014 states that in implementing the enterprise agreement and performing their duties staff will uphold the APS values and adhere to the APS Code of Conduct contained in the *Public Service Act 1999* and ANAO specific values which are drawn from the APS values.<sup>12</sup> The APS Code of Conduct is defined in section 13 of the *Public Service Act 1999*. The APS Code of Conduct requirements include the need for staff to behave honestly, with integrity, comply with all applicable Australian laws, take reasonable steps to avoid conflict and maintain appropriate confidentiality.

**4.12** The risk, complexity, and size of an audit impacts the skill level required to be assigned to an audit. The assignment of Quality Review Executives, Engagement Executives, and Signing Officers are assessed and reconfirmed annually by the GEDs in conjunction with the Auditor-General. The assignment of the senior team members is discussed at the AASG SES annual meeting, minuted and approved by the GEDs prior to confirming with the Auditor-General. The key factors considered in the 2012–13 annual meeting included rotation requirements (as documented in paragraph 4.55), the number of audits assigned to each senior team member and the budgeted engagement hours allocated to each staff member. In addition, other considerations in assigning audits include the combined level of audit experience on the audit and security requirements of the audit.

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<sup>12</sup> Australian National Audit Office Enterprise Agreement 2011–2014.

*Policies and procedures to assign responsibility to an engagement partner ensure the role of the engagement partner is communicated, the engagement partner has the appropriate competence, capabilities and authority to perform the role and the responsibilities of the engagement partner are communicated.*

**4.13** The Auditor-General delegates the conduct of, including the signing of the auditor's report, to the GEDs, Executive Directors and selected Senior Directors.

**4.14** PAAM states the role and responsibilities of the Signing Officer. The policy defines the Signing Officer as the person who signs the audit report on the financial statements and in most cases the Signing Officer is the Engagement Executive for the audit.

**4.15** Some moderate or low risk audits are delegated to Senior Directors. The role and oversight processes of Senior Directors is minuted in the document *Role of AASG's audit principals and the audit quality oversight modalities of all EL2 signing officers for the 2012–2013 audit cycle*.<sup>13</sup> These Signing Officers report to a GED aligned to their respective audit group on audit client matters, and each is assigned a GED or Executive Director as a mentor. Additionally, all audits led by a Senior Director Signing Officer with an audit budget of greater than 250 hours will also have a Second Reviewer assigned, which is an Executive Director.

**4.16** The appointment of Senior Director Signing Officers and the associated mentor and, where required a second reviewer, is reviewed annually by the GEDs and approved by the Auditor-General.

**4.17** PAAM 60.3 *Roles and Responsibilities of the Second Reviewer* states the Second Reviewer must be a Senior Executive and will ordinarily be at least one level higher than the Engagement Executive. The policy also states that a Second Reviewer who is a GED must also be appointed to an engagement when it is planned that the Auditor-General will sign the audit report, except where the GED already has a formal role in the engagement as the Engagement Executive or Quality Review Executive.

**4.18** PAAM policy 60.1 *Role and Responsibilities of the Engagement Executive* states that one of the responsibilities of the Engagement Executive is to communicate the role of the Engagement Executive and where different, the

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<sup>13</sup> *Role of AASG's audit principals and the audit quality oversight modalities of all EL2 signing officers for the 2012–2013 audit cycle.*

identity of the Signing Officer to the Chief Executive and those charged with governance. The identity and role of the Signing Officer is communicated to key members of client management and those charged with governance in the Audit Strategy Document (ASD). The ASD is a mandatory document issued for each financial statements audit to those charged with governance. The ANAO defines those charged with governance to be the Chief Executive, Directors, and the Audit Committee of the entity.

**4.19** The role and responsibility of the Engagement Executive is documented in PAAM 60.1 *Roles and Responsibilities of the Engagement Executive*. The policy states that in practice in the ANAO, the Engagement Executive fulfils the duties of the engagement partner.

**4.20** The Engagement Executive's key responsibilities are to:

- approve and/or review key aspects of the audit approach, assessment of materiality, schedule of unadjusted differences, the Signing Officer Review Memorandum, the audited financial statements and the audit report;
- discuss the audit with the Signing Officer, if different from the Engagement Executive, at regular intervals and ensure they are satisfied procedures have been completed in accordance with the Auditing Standards;
- ensure they are satisfied the Quality Review Executive's role has been completed satisfactorily; and
- review any other information they consider appropriate and document their involvement in the financial statements audit.

**4.21** PAAM policy 60.2 *Role and Responsibilities of the Signing Officer* states that the Signing Officer must approve the Signing Officer Review Memorandum and review the Closing Report. The Signing Officer Review Memorandum and the Closing Report are key audit deliverables produced during the completion of the audit. These reports summarise the key outcomes of the audit and whether a modified or unmodified audit opinion will be issued.

**4.22** The Signing Officer Review Memorandum summarises the key components of the audit including audit scope, audit risk, audit focus areas, independence, accounting and audit matters noted during the audit cycle, audit findings, commentary on the financial statement preparation process and movements in key financial statement line items.

**4.23** The Signing Officer Review Memorandum is prepared by each audit manager and is required to be reviewed by the Signing Officer, Engagement Executive and the Quality Review Executive where one is appointed to the engagement. The Signing Officer Review Memorandum is an internal document that summarises key information from the audit file and supports the information presented in the Closing Report.

**4.24** The Closing Report is the external document provided to client management and those charged with governance and is prepared at the completion of the audit. The Closing Report documents accounting and auditing matters including audit scope, audit findings and commentary on the financial statement preparation process. The Closing Report is prepared by the audit manager and reviewed by the Signing Officer, Engagement Executive and Quality Review Executive if one is appointed to the engagement.

**4.25** In making a decision to promote an individual from outside or within the APS as an Executive Director, the requirements set out in the *Public Service Commissioner's Directions 1999* must be satisfied. Whenever a SES opportunity becomes available it must be advertised and a selection advisory committee is established to assess each applicant. For Executive Director positions within the AASG the committee is chaired by a GED and the committee includes an independent party who acts as the Public Service Commissioner's representative.

**4.26** The core SES selection criteria are the five key elements identified in the Senior Executive Leadership Framework which are: shapes strategic thinking, achieves results, exemplifies personal drive and integrity, cultivates productive working relationships and communicates with influence.

**4.27** The performance of the GEDs and the Executive Directors is assessed against the five elements in the Executive Leadership Framework. The annual assessment of the performance of each Executive Director is a collective matter agreed by the three GEDs. The GEDs recommend to the Deputy Auditor-General and Auditor-General the indicative rating for each Executive Director.

**4.28** Annually, an ANAO staff survey is conducted by an independent research firm. The 2012-13 staff survey asked questions on leadership, job satisfaction, career development, recruitment and selection, work life balance, performance management, ANAO values and behaviour, supervisor performance and supervisor performance management. The results of the staff survey are assessed by the GEDs and are included in the overall assessment of performance of the AASG. Refer to paragraph 6.27.

**4.29** The ANAO sets key performance indicator targets and assesses the actual results against the key performance indicators. The results of the staff survey are used by the GEDs to formulate the business plan including key areas where performance is on target and areas for improvement.

*Policies and procedures to assign appropriate personnel with the necessary competence and capabilities to perform engagements in accordance with auditing standards, relevant ethical requirements, legal and regulatory requirements and enable the ANAO to issue reports that are appropriate in the circumstances.*

**4.30** The *Public Service Act 1999* section 10(2) states for the purposes of ensuring employment decisions are made on merit, a decision relating to engagement or promotion is based on merit if:

- an assessment is made of the relative suitability of the candidates for the duties, using a competitive selection process;
- the assessment is based on the relationship between the candidate work-related qualities and the work-related qualities genuinely required for the duties;
- the assessment focuses on the relative capacity of the candidates to achieve outcomes related to the duties; and
- the assessment is the primary consideration in making the decision.

**4.31** The Australian National Audit Office Enterprise Agreement 2011–2014 states the performance assessment cycle operates from 1 November to 31 October, with a mid-term assessment in May each year. The Enterprise Agreement Performance Assessment Scheme is a framework to administer the process to review staff performance and ensure the performance is aligned with ANAO service group objectives. The Performance Assessment Scheme is applicable to all ongoing staff employed continuously for twelve months or longer. The performance management arrangements for the GEDs and the Executive Directors are set out in their individual contracts.

**4.32** The ANAO Capability Framework was updated in December 2012. The Capability Framework is designed to communicate the skills and behaviours required at each staff level. The ANAO Capability Framework includes work level standards, job requirements and responsibilities and provides guidance on expected staff behaviour for each capability level. The Capability Framework contains three key areas and six capabilities. The capabilities are described across four levels of proficiencies for Graduates to Senior Directors.

**4.33** Learning and development courses are mapped to one of the six capabilities and the four proficiency levels in the Capability Framework. This assists staff to identify courses applicable to their role and level. The learning and development courses include technical audit, technical accounting and soft skill courses. The technical audit courses focus on applying the auditing standards and ANAO audit methodology. The technical accounting courses focus on the application of the accounting standards and any changes to the financial framework and accounting standards. The soft skills include courses on project management, written communication, working in teams, coaching and leadership, problem solving, analytical skills and professional judgement.

**4.34** The ANAO is in the process of incorporating the updated Capability Framework into the 2013–2014 performance assessment process.

**4.35** Performance expectations are established between staff and their administrative supervisors at the commencement of the performance assessment period. These expectations must incorporate job expectations, key responsibilities, performance standards and an individual development plan. The supervisor and staff are required to identify appropriate learning and development courses that are available to assist the staff member achieve their performance agreement plan.

**4.36** The ANAO uses a five level performance assessment scale to rate overall performance. The overall performance assessment rating is based on the staff member's performance against each of their key responsibilities. The assessment takes into account behaviours exhibited during the cycle and whether those behaviours uphold the APS values. The ratings are outstanding, more than fully effective, fully effective, requires development and unsatisfactory.

**4.37** The key components of the Performance Assessment Scheme process include:

- discussions between the staff member and their administrative supervisor on expectations for the year. The outcomes of these discussions are included in a performance agreement;
- a mid-year assessment of the staff member's performance against the performance agreement is conducted and each supervisor is required to document their assessment and provide a summary of performance to the relevant Executive Director;



- final review of the staff member's performance at the end of the performance assessment cycle. Final indicative ratings are discussed and reviewed;
- the Auditor-General discusses and provides feedback on the performance of the ANAO and the AASG with the GEDs;
- the indicative ratings of staff members are reviewed by the Executive Directors and the GEDs as an executive group. The indicative ratings for all AASG staff are discussed and reviewed against the performance assessment scheme guidance. This meeting occurs at the end of the performance cycle prior to the approval and notification of the ratings to staff members;
- the GEDs discuss the AASG staff ratings with the Deputy Auditor-General; and
- the indicative ratings are confirmed by the People and Capabilities Strategy Committee prior to final notification to staff.

**4.38** The ANAO Capability Framework communicates the responsibility of the staff member, and supervisor, to identify appropriate learning and development courses to assist in the staff member's skill development.

**4.39** The PSB and AASG run regular technical accounting and auditing training to all AASG staff. This training builds upon the financial accounting and auditing skills sourced from formal training programs run by the Institute of Chartered Accountants Australia (ICAA) and the CPA Australia. The ANAO has supported ANAO staff to undertake the ICAA and the CPA Australia programs, for more than 15 years. 84 per cent of AASG staff have full membership of either ICAA or CPA Australia (or overseas equivalent) or are undertaking one of these two programs. The bulk of the remaining staff will commence one of these two programs in the next six to 12 months.

**4.40** In January 2012, in recognition of the ANAO's strong commitment to learning and development, CPA Australia awarded the ANAO Recognised Employee Partner Status (Knowledge Level).

**4.41** The AASG staff also need to identify appropriate courses to attend during performance assessment discussions in order to address the expectations set in the capability framework, their performance agreements and their individual development plans. Attendance at the monthly technical updates run by the PSB and AASG technical courses are mandatory.

**4.42** Opportunities for staff development outside of the AASG are provided and can include work rotation to other service groups within the ANAO, international audit offices and attendance at industry specific seminars.

**4.43** An Executive Director monitors the AASG's learning and development nominations, tracks attendance, and provides statistics to the GEDs, all Executive Directors and administration managers.

**4.44** The collective attendance at learning and development courses is monitored and reviewed by the:

- People and Capabilities Strategy Committee— the committee includes the Deputy Auditor-General, a GED from each of the business groups and the Head of Corporate; and
- Executive Board of Management (EBOM) – EBOM includes the Auditor-General, Deputy Auditor-General, Chief Financial Officer of the ANAO, the GEDs and Head of Corporate. EBOM receives various statistics covering the costs and hours for each group of employees from the Corporate Management Branch. In addition, the AASG reports detailed learning and development statistics to EBOM through the annual AASG Transparency Report.

**4.45** The AASG leadership group uses the attendance information to assist in the evaluation of current year initiatives and identification of future learning and development strategies.

**4.46** The ANAO has a Professional Development Opportunities Policy. The policy sets out the conditions for ANAO staff undertaking an approved course of external study at an educational institution such as a university, professional association, TAFE College or a registered training organisation to develop and strengthen skill level and capabilities of ANAO staff. The assistance includes financial assistance, paid study leave, use of accrued leave for attendance at courses and compensation under the *Safety, Rehabilitation and Compensation Act 1988*.

**4.47** The studies assistance categories are:

- Tier 1 Formal Professional Qualifications – Relate to programs essential to the business needs of the ANAO and are directly related to the staff member's work (for example, accreditation with the Institute of Chartered Accountants Australia, CPA Australia, and the Information

Systems Audit and Control Association).<sup>14</sup> All AASG personnel working on financial statements audits are expected to complete a formal professional qualification;

- Tier 2 Accredited Tertiary Educations - Relate to programs that have a high degree of relevance to the ANAO and a priority for the development of internal capabilities<sup>15</sup>; and
- Tier 3 Study Programs – Relate to study programs which are not a priority to the ANAO but have a broader Australian Public Service relevance.<sup>16</sup>

**4.48** To assist graduates and other junior audit team members develop their core auditing skills, the AASG has published the Assurance Audit Services Group Auditor's Handbook. The Handbook documents twelve activities designed to provide a structured approach to on the job training. Each staff member participating in the program is required to document their activities against the twelve tasks and discuss their progress with their supervisor. The activities relate to collecting and analysing data, documentation of systems and processes, performing core audit procedures and time management.

**4.49** As part of the annual assessment of AASG's business model, the AASG assesses their financial statements audit base, associated planned audit effort, and resource levels including the most appropriate workforce mix for the coming year. In determining the AASG's resourcing requirements, the AASG performs an analysis of the risk, complexity, size, skill level and the security requirements for each audit. This analysis is performed against AASG's guiding resource principles. Refer to paragraphs 5.23 to 5.25.

**4.50** In order to determine the planned audit effort required to deliver all financial statements audits, the AASG has developed a model that details the number of hours required to deliver a quality audit by individual staffing levels. The Capability Framework details the skill and experience required at each AASG staff level.

**4.51** The planned audit effort model is reassessed annually through the development of individual financial statements audit budgets, an analysis of new Commonwealth entities, the anticipated audit effort required and

<sup>14</sup> ANAO Studies Assistance Policy & Guidelines April 2012.

<sup>15</sup> *ibid.*

<sup>16</sup> *ibid.*

significant events that may lead to scope changes including machinery of government changes.

**4.52** The total demand across all financial statements audits is assessed in association with recruitment, staff retention, learning and development commitments and promotion assumptions. The total resource demand is met by AASG staff, supplemented by contractors resources. Throughout the year, the AASG's resourcing needs are continuously monitored.

**4.53** The individual audit budgets are developed, approved by each Engagement Executive, and compared against the planned audit effort model for each audit. Any variances between the audit budget and the model requires GED approval. Once approved the planned audit effort model is updated, by staffing level, and forms the new benchmark hours and staff profile for the audit. In addition, each financial statements audit team updates the project management system (Changepoint) with the approved budget by staff level.

**4.54** Throughout the financial statements audit, the budget and actual hours are compared and analysed by audit teams. Budget to actual performance is monitored by the GEDs and significant exceptions are reported to EBOM through the annual AASG Transparency Report.

**4.55** The assignment of Quality Review Executives, Engagement Executives and Signing Officers is assessed and reconfirmed annually by the GEDs. The assignment of the senior team members is discussed at the SES annual resource allocation meeting.

**4.56** The AASG is structured into four work areas functionally grouped on government portfolio lines. Within the AASG, a GED is assigned an oversight function for quality and administration for each group and a GED is assigned to oversee the general management of the AASG practice.

**4.57** The AASG publishes on their intranet site a consolidated view of staff allocations, by day, across all ANAO audits.

**4.58** If changes to the allocation are required throughout the year as a result of staff movements, the resource manager within the work area will attempt to find a replacement for the individual. If a replacement cannot be identified within the work area, a discussion with the resource managers in the other work areas will occur to identify available resources within other work areas.

**4.59** The Assurance Audit Service Group Workforce Plan 2011–2014 is a strategic platform for managing the AASG workforce over the period

2011–2014<sup>17</sup> and is prepared by the GEDs. The plan identifies and discusses key work force risks and strategy areas.

**4.60** The AASG's current workforce includes ANAO staff and is supported by contract resources based on the Workforce Plan 2011–2014. The planned audit effort (AASG staff hours required to complete the audit work) is used as a basis to determine the benchmark profile of all AASG staff, and the extent of contract resources. Factors impacting resource availability such as retention rates, recruitment, internal promotions and changes to the environment and services are discussed in the workforce plan and are used in calculating the planned audit effort and resource level requirements.

## Considerations

**4.61** No considerations noted.

## Conclusion

**4.62** As at the date of this report, the activities and responsibilities established by the ANAO's Quality Assurance Framework in relation to human resources for financial statements audits are consistent with the relevant requirements of ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements*.

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<sup>17</sup> Australian National Audit Office Assurance Audit Services Group Workforce Plan 2011-2014.

## 5. Engagement performance

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### ASQC 1 Requirements

**5.1** The firm shall establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with AUASB Standards, relevant ethical requirements, and applicable legal and regulatory requirements, and that the firm or the engagement partner issue reports that are appropriate in the circumstances. Such policies and procedures shall include:

- (a) matters relevant to promoting consistency in the quality of engagement performance;
- (b) supervision responsibilities; and
- (c) review responsibilities.

**5.2** The firm's review responsibility policies and procedures shall be determined on the basis that work of less experienced engagement team members is reviewed by more experienced engagement team members.

**5.3** The firm shall establish policies and procedures designed to provide it with reasonable assurance that:

- (a) appropriate consultation takes place on difficult or contentious matters;
- (b) sufficient resources are available to enable appropriate consultation to take place;
- (c) the nature and scope of, and conclusions resulting from, such consultations are documented and are agreed by both the individual seeking consultation and the individual consulted; and
- (d) conclusions resulting from consultations are implemented.

**5.4** The reasons for alternative course of action from consultations were undertaken, are documented.

**5.5** The firm shall establish policies and procedures requiring, for appropriate engagements, an engagement quality control review that provides an objective evaluation of the significant judgements made by the engagement team and the conclusions reached in formulating the report. Such policies and procedures shall:

- (a) require an engagement quality control review for all audits of financial reports of listed entities;
- (b) set out criteria against which all other audits and reviews of historical financial information and other assurance engagements shall be evaluated to determine whether an engagement quality control review should be performed; and
- (c) require an engagement quality control review for all engagements, if any, meeting the criteria established in compliance with subparagraph 35(b) of this Standard.

**5.6** The firm shall establish policies and procedures setting out the nature, timing and extent of an engagement quality control review. Such policies and procedures shall require that the engagement report not be dated until the completion of the engagement quality control review.

**5.7** The firm shall establish policies and procedures to require the engagement quality control review to include:

- (a) discussion of significant matters with the engagement partner;
- (b) review of the financial report or other subject matter information and the proposed report;
- (c) review of selected engagement documentation relating to significant judgements the engagement team made and the conclusions it reached; and
- (d) evaluation of the conclusions reached in formulating the report and consideration of whether the proposed report is appropriate.

**5.8** The firm shall establish policies and procedures to address the appointment of engagement quality control reviewers and establish their eligibility through:

- (a) the technical qualifications required to perform the role, including the necessary experience and authority; and
- (b) the degree to which an engagement quality control reviewer can be consulted on the engagement without compromising the reviewer's objectivity.

**5.9** The firm shall establish policies and procedures designed to maintain the objectivity of the engagement quality control reviewer.

**5.10** The firm's policies and procedures shall provide for the replacement of the engagement quality control reviewer where the reviewer's ability to perform an objective review may be impaired.

**5.11** The firm shall establish policies and procedures on documentation of the engagement quality control review which require documentation that:

- (a) the procedures required by the firm's policies on engagement quality control review have been performed;
- (b) the engagement quality control has been completed on or before the date of the report; and
- (c) the reviewer is not aware of any unresolved matters that would cause the reviewer to believe that the significant judgements the engagement team made and the conclusions it reached were not appropriate.

**5.12** The firm shall establish policies and procedures for dealing with and resolving differences of opinion within the engagement team, with those consulted and, where applicable, between the engagement partner and the engagement quality control reviewer.

**5.13** Such policies and procedures shall require that:

- (a) conclusions reached be documented and implemented; and
- (b) the date of the report cannot be earlier than the date on which the matter is resolved.

**5.14** The firm shall establish policies and procedures for engagement teams to complete the assembly of final engagement files on a timely basis after the engagement reports have been finalised.

**5.15** The firm shall establish policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation.

**5.16** The firm shall establish policies and procedures for the retention of engagement documentation for a period sufficient to meet the needs of the firm or as required by law or regulation.



## Audit Procedures

**5.17** Interviews in regards to engagement performance were conducted with the:

- Auditor-General and Deputy Auditor-General;
- AASG Group Executive Directors (GEDs);
- Executive Directors in the AASG; and
- Executive Director of the Professional Services Branch (PSB).

**5.18** The focus of the interviews and review of key documentation was to discuss engagement performance policy requirements of the ANAO and communication of these requirements to all staff in the AASG.

**5.19** The following documents were reviewed:

- key documentation as detailed in Appendix Two:
- ANAO reporting templates for Quality Review Executives, Engagement Executives and Signing Officers specifying the requirements for their involvement in the planning, control, substantive and completion phases of the financial statements audit;
- ANAO templates for documenting consultation and relying on the work of an expert in the financial statements audit; and
- content available on the AASG and PSB intranet.

**5.20** Procedures included understanding and analysing the process for the:

- selection of project managed engagements and private sector audit firms; and
- supervision and review by Engagement Executives and/or Signing Officers of project managed engagements.

## ANAO Implementation

*Policies and procedures designed to provide the ANAO with reasonable assurance that engagements are performed in accordance with AUASB standards, relevant ethical requirements and applicable regulatory requirements including matters promoting consistency in the quality of the engagement, supervision responsibilities and review responsibilities.*

**5.21** The AASG performed 261 financial statements audits for the financial year ended 30 June 2012.

**5.22** Under section 27 of the *Auditor-General Act 1997*, the Auditor-General, on behalf of the Commonwealth, may engage any person under contract to assist in the performance of any Auditor-General function. Of the total 261 financial statements audits performed in 2011–12, 92 were performed by ANAO staff and 169 were project-managed audits where, oversights by an ANAO Signing Officer, an audit firm is engaged to undertake the audit on behalf of the Auditor-General.

**5.23** In 2011–12, the audits performed by AASG staff consisted of over 85 per cent of both the General Government Sector and whole of government income and expenses.

**5.24** As part of AASG's business model, each year AASG assess their audit base, associated planned audit effort, and resource levels including the most appropriate workforce mix. As part of this process, the selection of financial statements audits to be performed by ANAO staff or project managed by an ANAO Signing Officer is assessed against guiding principles. The guiding principles have been developed by the GEDs in consultation with the Auditor-General and consider the nature, risk, industry, location and complexity of the entity.

**5.25** ANAO staff perform the audits of departments of state, regulatory bodies and information entities, as the core skill set of the ANAO is auditing public sector entities. Audits that require specialist skill sets, or are based in locations where it is not efficient to perform the audit from Canberra, are generally project managed with the assistance of private sector audit firms.

**5.26** A Signing Officer is allocated to each project-managed audit and takes responsibility for the quality of the audit.

**5.27** PAAM 60.4 *Project Managed Audits* sets out the Signing Officer's responsibilities where an audit firm is engaged to assist in the conduct of the audit. The policy sets out minimum requirements for Signing Officers and Engagement Executives in meeting their responsibilities for project managed audits. The policy also requires the contracted audit firm to use an audit methodology that enables compliance with the requirements of: the ANAO auditing standards, legislation or regulations relevant to the audit, APES 110 *Code of Ethics for Professional Accountants* and such policies and procedures as are notified to the contractor by the ANAO Engagement Executive.<sup>18</sup>

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<sup>18</sup> PAAM 60.4 Project Management Audits.

**5.28** All contract procurement arrangements are performed in accordance with the Commonwealth Procurement Rules. As part of the tender evaluation process, contract audit firms are assessed against set criteria and their ability to satisfy the overall requirements. The criteria includes how the contract audit firms' audit methodology, proposed approach and management processes meet the needs of the ANAO. Key elements of the assessment include the qualifications and experience of the tenderer's professional staff proposed to be involved in the provision of the services and price.

**5.29** The Engagement Executive Progressive Involvement Report is completed by the Engagement Executive for each project-managed engagement. The report summarises the Engagement Executive's involvement in the financial statements audit.

**5.30** The following table (Table 1) outlines the key requirements and how the ANAO addresses each in practice.

**Table 1**

**Key requirements<sup>19</sup> and ANAO response**

| Requirement  | Response  |
|--|---|
| Require the use of an audit methodology that enables compliance with ANAO auditing standards, legislation or regulations relevant to the audit and APES 110 <i>Code of Ethics for Professional Accountants</i> . | <p>The Request for Tender for each project-managed audit evaluates the tenderer's audit methodology, approach and the management process proposed to meet the requirements of the ANAO.</p> <p>The contract states the successful tenderer will be required to comply, and must ensure its personnel and subcontractors comply, with laws and Commonwealth policies (as listed in the contract). The engagement partner of the contract out firm must formally represent to each Signing Officer for each financial statements audit that the audit services have been completed in accordance with the applicable ANAO auditing standards.</p> <p>The Engagement Executive Progressive Involvement Record requires the Engagement Executive to confirm that they are satisfied that relevant PAAM policies have been notified to the contractor and the policy requirements have been followed. PAAM policies contain the ANAO auditing standards.</p> |

<sup>19</sup> PAAM 60.4 Project Managed Audits.

| Requirement  | Response   |
|--|--|
| <p>ANAO Signing Officer is responsible for the audit and is the engagement partner for the purposes of the Auditing Standards.</p>   | <p>The AASG maintains a listing of each financial statement audit performed per the <i>Financial Management and Accountability Act 1997</i> and <i>Commonwealth Authorities and Companies Act 1997</i>. The listing details the Engagement Executive, the Signing Officer, the Quality Review Executive (if applicable), and the Second Reviewer (if applicable). An Engagement Executive is assigned to each project-managed engagement.</p>  |
| <p>Engagement Executive to be briefed by the project-managed partner at appropriate times during the audit.</p>  | <p>The Engagement Executive Progressive Involvement Record requires the Engagement Executive to confirm that they have documented evidence of their involvement, including briefings, at the planning, interim and final stages.</p>   |
| <p>The Engagement Executive is required to approve:</p> <ul style="list-style-type: none"> <li>• Key aspects of the audit approach;</li> <li>• Assessment of overall and performance materiality assessment;</li> <li>• Unadjusted audit differences;</li> <li>• Signing Officer Review Memorandum;</li> <li>• Audited financial statements; and</li> <li>• Audit report.</li> </ul> | <p>The Engagement Executive Progressive Involvement Record requires the Engagement Executive to confirm that the requirements have been achieved.</p>  |
| <p>Engagement Executive (and if different, the Signing Officer) shall be satisfied that the project managed engagement partner has completed their work in accordance with the ANAO auditing standards.</p>  | <p>The Engagement Executive Progressive Involvement Report requires that the Engagement Executive make enquiries and review such work papers as they consider necessary to be satisfied that the quality control procedures applied to the audit are in accordance with the requirements of the contract, including meeting ANAO auditing standards and obtaining sufficient and appropriate audit evidence. As noted above, the engagement partner of the contract out firm must represent to the Engagement Executive for each financial statements audit that the audit services have been completed in accordance with the applicable ANAO auditing standards at audit completion.</p> |

| Requirement  | Response  |
|--|---|
| Where a Quality Review Executive is appointed the Engagement Executive is satisfied that the review processes have been completed satisfactorily before the audit report is issued.                        | The Engagement Executive Progressive Involvement Record requires the Engagement Executive to confirm that the Quality Review Executive's processes have been completed satisfactorily before the audit report date.           |
| The audit file must contain documented evidence of the Engagement Executive's (and if different, the Signing Officer's) involvement, including at the briefings at the planning, interim and final stages. | The Engagement Executive Progressive Involvement Record requires the Engagement Executive to confirm that they have documented evidence of their involvement, including briefings, at the planning, interim and final stages. |

**5.31** The engagement risk rating for each financial statements audit is assessed in planning. The engagement risk rating considers the risk that the financial information might be materially misstated before considering audit procedures to reduce this risk to an acceptable level.<sup>20</sup>

**5.32** At the commencement of the audit cycle, the GEDs and the Executive Directors meet to discuss the engagement risk rating of all financial statements audits to be undertaken by the ANAO during the coming audit cycle. Factors that may impact the engagement risk rating are discussed and include: size, complexity and stability, business risks of the entity in the current period, previous audit findings, significant changes in the business and the legal or regulatory environment.

**5.33** The AASG uses a three-tiered engagement risk rating scale of high, moderate or low. Of the total 261 financial statements audits the ANAO performed in 2011–12, two audits were rated as high engagement risk, 70 audits were rated as moderate engagement risk and 189 audits were rated as low engagement risk. The two audits rated high risk were performed by ANAO staff.

**5.34** Following the conclusion of the preliminary engagement risk rating by the GEDs and Executive Directors, the engagement risk ratings for all audits are documented in the minutes of the meeting and updated in Changepoint. The minutes detail the key changes to the engagement risk ratings (increase or decrease in the risk rating), engagement risk ratings to be finalised and checks

<sup>20</sup> PAAM Engagement Risk Rating 70.1.3.

that are performed to ensure a complete list of financial statements audits have been reviewed.

**5.35** The entity's overall risk rating (as determined at planning) is documented in the Risk Assessment Template for each financial statements audit conducted by ANAO staff. The Risk Assessment Template requires the audit team to consider key financial information, key non-financial information, audit findings (including audit qualifications, statutory and legislative matters and carried forward findings from the previous year audit), internal controls assessments and information technology control assessments in concluding on the entity's overall risk rating. This assessment is documented and must be approved by the Signing Officer.

**5.36** PAAM 60.1 *Role and Responsibilities of the Engagement Executive* state the supervision and review responsibilities of the Engagement Executive include:

- the direction, supervision and performance of the engagement in accordance with professional and auditing standards and regulatory and legal requirements. The Engagement Executive is required to document the extent and timing of their reviews;
- the assignment of engagement teams and auditor's experts which collectively have the appropriate levels of competencies and capabilities;
- following appropriate procedures for consultations and differences of opinion;
- sufficient involvement in the audit engagement at appropriate stages throughout the engagement;
- assessing the engagement team's compliance with ethical requirements including the ANAO's independence policy; and
- concluding whether sufficient and appropriate audit evidence exists and has been documented to support the conclusions reached and the auditor's report can be issued.

**5.37** PAAM 60.2 *Role and Responsibilities of the Signing Officer* states the supervision and review responsibilities of the Signing Officer include:

- review of key aspects of the audit strategy including key judgements in the audit;
- approval of the Signing Officer Review Memorandum which includes details of significant matters arising in the audit, and in particular,

consultation and conclusion on matters that were difficult or contentious; and

- review any other matters that the Signing Officer considers appropriate in the circumstances.

**5.38** The GEDs oversee the allocation of Signing Officers to financial statements audits taking into account the audit engagement risk and auditor rotation requirements. The role of allocating AASG staff to financial statement audits is delegated to an individual Executive Director. The Executive Director allocates AASG employees to the engagement based on resource requirements in consultation with the GEDs. Refer to paragraphs 4.16 and paragraphs 4.49 to 4.58 for further commentary.

**5.39** The ANAO financial audit manual is PAAM. The AASG uses an electronic audit tool to support the application of audit policy, audit methodology and to maintain documentation in relation to the execution of the financial statements audit. The electronic audit tool has an on-line guidance manual, supported by a large international private audit firm, and includes audit programs for the conduct of financial statements audit in accordance with the ANAO auditing standards.

**5.40** The ANAO utilises a number of resources to promote consistency in the quality of the audit. In addition to the electronic audit tool, PSB and AASG have intranet sites that contain audit reference material. Reference material includes, but is not limited to the following:

- PAAM – Documents ANAO audit methodology and policy. The Professional Services Branch also maintains a matrix that reconciles the ANAO audit methodology to auditing standards requirements.
- Audit Quality Aide Memoire – The document communicates to AASG staff the Auditor-General's and the GEDs' expectations. The document sets out common audit themes from reviews such as the Australian Securities and Investments Commission's assessment of private sector audit firms and internal ANAO reviews. The document is updated annually and highlights areas where additional care by audit teams may be required.
- Technical bulletins – The bulletins discuss application of auditing and accounting standard requirements.
- Question and answer database (Q&A database) – The database is used by audit teams to submit questions relating to the application of audit

methodology, accounting standards and legislative and/or reporting requirements. Audit teams are able to view questions submitted previously and answers published. Audit teams can use this database as a resource to understand the basis of prior answers to questions submitted which may be applicable to their current audits.

- **Guides** – The guides include audit and non audit topics. The audit guides provide direction and guidance on how to audit components of financial statements. The non audit guides address topics such as writing skills, the use of the electronic audit tool and project management. These guides support staff in the consistent application of audit and operational skills.
- **Other** – Includes links to external reference material, illustrative guides of financial statements, financial reporting frameworks, contact details for audit methodology champions etc. The resources are developed collaboratively by the AASG and the PSB and are in response to needs identified by audit teams, audit inspection programs and continuous improvement program such as the methodology support project.

**5.41** To assess engagement performance, an independent company conducts a client survey each year. The survey is sent to all public service entities for which the AASG performs a financial statements audit. The survey asks the participants to respond to questions on the overall performance of the ANAO, consultation, communication, understanding of the public sector entity, knowledge, skills, conduct, reporting and value added by the ANAO. The 2011–12 survey showed overall performance was positive with noted improvements in some metrics.

*Policies and procedures designed to provide the ANAO with reasonable assurance that appropriate consultation takes place, sufficient resources are available, the nature and scope of consultations are documented and agreed, and conclusions reached from consultations are implemented.*

**5.42** The ANAO policy relating to consultation is documented in PAAM 100.1 *Consultation*. The audit team is required to undertake consultation during the course of the audit with members of the engagement team, within the ANAO and outside the ANAO as appropriate.

**5.43** All consultations are required to be documented on the audit file. The key matters that must be documented are the nature and scope of, and conclusions resulting from, such consultations, evidence the documentation



was agreed with the consulting party and conclusions resulting from consideration of the consultation.<sup>21</sup>

**5.44** PAAM 100.1 *Consultation* states that it is a matter of judgement as to whether consultation is needed. The Engagement Executive is required to consider whether for each difficult or contentious matter the team collectively has the expertise and experience to resolve the matter without consultation or whether there is a need to consult. Engagement teams can consult internally with the PSB. The PSB provides services such as technical advice on the application of accounting standards, audit methodology and legislative issues.

**5.45** The Engagement Executive may consult with the Quality Review Executive, the PSB or experts outside the ANAO.

**5.46** Audit teams submit matters for consultation to the PSB using a Question and Answer ('Q&A') database. When audit teams submit a matter for consultation they are required to provide background facts, details of communications with other parties (e.g. other experts, external agencies etc.), the matter in question and a proposed answer/resolution if available. The matter must be approved by the Signing Officer prior to the matter being submitted and following this the matter is allocated to a subject matter expert in the PSB to address.

**5.47** The PSB has auditing and accounting standards subject matter experts. The Executive Director of the PSB monitors the volume of matters submitted using the Question and Answer database and evaluates whether additional resources are required to meet demand.

**5.48** Following resolution of the matter, the response is published in the Q&A database for the audit team to view. If the matter does not contain confidential information it will be available on the intranet for all AASG staff to view.

**5.49** The ANAO has a Qualifications and Accounting Policy Committee. All proposed modifications to audit opinions are referred to the Committee. Unresolved significant differences of opinion are also referred to the Qualifications and Accounting Policy Committee. A difference of opinion may occur between two or more of the following parties: the Engagement Executive, Executive Director of the PSB, the Quality Review Executive, the GEDs and other parties consulted on the matter.

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<sup>21</sup> PAAM 100.1 Consultation.

**5.50** Differences in opinion and the advice of the Qualifications and Accounting Policy Committee are required to be documented by the Engagement Executive. The Signing Officer Review Memorandum should identify such differences and include the resolutions to each matter.

*Policies and procedures requiring, for appropriate engagements, an engagement quality control review that provides objective evaluation of the significant judgements made by the engagement team and the conclusions reached in formulating the report.*

**5.51** PAAM 110.1 *Role and Responsibilities of the Quality Review Executive* sets out the circumstances for the appointment of a Quality Review Executive and the responsibilities of the Quality Review Executive.

**5.52** A Quality Review Executive is required to be appointed when:

- the risk of material misstatement has been assessed as high by the Signing Officer on a financial statements audit that is material to the Commonwealth's consolidated financial statements; and
- the audit is of a listed entity.

**5.53** Quality Review Executives appointed to a financial statements audit must have a minimum of three years' financial statements audit experience at the Executive Director level or equivalent.<sup>22</sup>

**5.54** To maintain the Quality Review Executive's objectivity, the Quality Review Executive is not permitted to be involved in the decision making process on the audit, participate in the engagement during the period of appointment and must be different to the GED assigned to the audit as the 'sounding board' for the Engagement Executive. During the financial statements audit if the Quality Review Executive's objectivity may have become impaired, PAAM 110.1 *Role and Responsibilities of the Quality Review Executive* required the GEDs to recommend to the Auditor-General the appointment of a new Quality Review Executive for the financial statements audit.

**5.55** PAAM 110.1 *Role and Responsibilities of the Quality Review Executive* sets out the nature and extent of the quality review. The Quality Review Executive is required to:

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<sup>22</sup> PAAM 110.1.7 Role and responsibilities of the Quality Review Executive.

- discuss significant matters with the Engagement Executive and the Signing Officer;
- review the financial report and the proposed audit report;
- review selected engagement documentation relating to significant judgements made by the audit team and the conclusions that were reached;
- evaluate the conclusions reached in formulating the audit report and consider whether the proposed audit report is appropriate;
- consider the Engagement Executive's evaluation of independence in relating to the financial statements audit;
- consider whether appropriate consultation has taken place on matters involving differences in opinion or other difficult or contentious matters and the conclusion reached from the consultation; and
- consider whether documentation reflects the work performed in relation to significant judgements made and conclusions reached.

**5.56** The Quality Review Executive's involvement in the financial statements audit is documented in the Quality Review Engagement planning and completion checklists. The Audit Manager is required to organise a meeting with the Engagement Executive and the Quality Review Executive following the completion of the planning phase of the audit. At this meeting the key matters will be discussed. The Quality Review Executive must sign off the checklist after completing the required procedures and reviewing key documentation. The Quality Review Executive is required to evidence their involvement in the financial statements audit throughout the audit cycle and complete the required procedures in the completion checklist on a timely basis.

**5.57** PAAM 60.2 *Role and Responsibilities of the Signing Officer* requires the Signing Officer to be satisfied that the review process by the Quality Review Executive has been completed satisfactorily before the audit report is issued.

**5.58** PAAM 100.2 *Differences of Opinion* requires where there is a difference of opinion between any two or more of the following parties the matter is referred to the Qualifications and Accounting Policy Committee or the Auditor-General as appropriate:

- the Engagement Executive;
- the Executive Director, PSB;
- the Quality Review Executive;

- the Group Executive Director; or
- any other party consulted including professional firms and PASG.

*Policies and procedures relating to file assembly, retention of documentation and the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation.*

**5.59** PAAM 120.1 *Audit Documentation* deals with documentation requirements for AASG audits. The policy states:

- audit documentation must be evidenced as reviewed prior to the date of the audit report;
- audit managers are responsible for the timely assembly of the audit file. The audit file must be complete and ready for finalisation no later than 60 days after the audit report is signed;
- audit documentation is to be recorded in the electronic working papers or correspondence file (E-Hive); and
- documentation must be prepared which enables an experienced auditor with no connection to the audit to understand the nature, timing and extent of audit procedures, the results of audit procedures, audit evidence obtained, significant matters arising during the audit and conclusions reached.

**5.60** The ANAO has the following policies relating to the management of audit information which is available on the intranet:

- ANAO record keeping policy;
- Guidelines for managing ANAO records;
- ANAO knowledge management policy;
- ANAO security policy manual; and
- E-Hive policies and procedures.

**5.61** Section 36(1) of the *Auditor-General Act 1997* provides that if a person has obtained information in the course of performing an Auditor-General function, the person must not disclose the information except in the course of performing an Auditor-General function or for the purpose of any Act that gives functions to the Auditor-General.

**5.62** PAAM 120.4 *Access to working papers by ANAO staff including contractors* provides that working papers and associated audit documentation shall only be made available to those auditors with a need to know. Where information

about an audit is required for purpose other than an audit or a quality assurance review, the permission of the relevant Engagement Executive shall be obtained.

**5.63** The AASG and PSB have implemented methods for ensuring key messages regarding audit quality are communicated to contract-in personnel and contract-out firms on a timely basis. Two recent initiatives include:

- the Executive Director of the PSB summarises the key audit quality matters discussed in technical updates and provides these to the Signing Officers for consideration and discussion with contract out firms if relevant to the individual financial statements audit; and
- the Signing Officer Technical Forum includes an agenda item that discusses the key items for communication to contract out firms.

## Considerations

**5.64** No considerations noted.

## Conclusion

**5.65** As at the date of this report, the activities and responsibilities established by the ANAO's Quality Assurance Framework in relation to engagement performance for financial statements audits are consistent with the relevant requirements of ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements*.

## 6. Monitoring

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### ASQC 1 Requirement

**6.1** The firm shall establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. This process shall:

- (a) include an ongoing consideration and evaluation of the firm's system of quality control including on a cyclical basis, inspection of at least one completed engagement for each engagement partner;
- (b) require responsibility for the monitoring process to be assigned to a partner or partners or other persons with sufficient and appropriate experience and authority in the firm to assume that responsibility; and
- (c) require that those performing the engagement or the engagement quality control review are not involved in inspecting the engagements.

**6.2** The firm shall evaluate the effect of deficiencies noted as a result of the monitoring process and determine whether they are either:

- (a) instances that do not necessarily indicate that the firm's system of quality control is insufficient to provide it with reasonable assurance that it complies with AUASB Standards, relevant ethical requirements, and applicable legal and regulatory requirements, and that the reports issued by the firm or engagement partners are appropriate in the circumstances; or
- (b) systemic, repetitive or other significant deficiencies that require prompt corrective action.

**6.3** The firm shall communicate to relevant engagement partners and other appropriate personnel deficiencies noted as a result of the monitoring process and recommendations for appropriate remedial action.

**6.4** Recommendations for appropriate remedial actions for deficiencies noted shall include one or more of the following:

- (a) taking appropriate remedial action in relation to an individual engagement or member of personnel;
- (b) the communication of the findings to those responsible for training and professional development;
- (c) changes to the quality control policies and procedures; and
- (d) disciplinary actions against those who fail to comply with the policies and procedures of the firm, especially those who do so repeatedly.

**6.5** The firm shall establish policies and procedures to address cases where the results of the monitoring procedures indicate that an audit report may be inappropriate or that procedures were omitted during the performance of the engagement. Such policies and procedures shall require the firm to determine what further action is appropriate to comply with relevant AUASB Standards, relevant ethical requirements, and applicable legal and regulatory requirements, and to consider whether to obtain legal advice.

**6.6** The firm shall communicate at least annually the results of the monitoring of its system of quality control to engagement partners and other appropriate individuals with the firm, including the firm's chief executive officer or, if appropriate, its managing board of partners. This communication shall be sufficient to enable the firm and these individuals to take prompt and appropriate action where necessary in accordance with their defined roles and responsibilities. Information communicated shall include the following:

- (a) a description of the monitoring procedures performed;
- (b) the conclusions drawn from the monitoring procedures; and
- (c) where relevant, a description of systemic, repetitive or other significant deficiencies and of the actions to resolve or amend those deficiencies.

**6.7** In the public sector, an auditor appointed under statute (for example, an Auditor-General) may delegate responsibility for an engagement. The monitoring process needs to include, on a cyclical basis, inspection of at least one completed engagement of each person with delegated responsibility for an engagement and its performance. This includes an external person engaged as the person responsible for an engagement.

## **Audit Procedures**

**6.8** Interviews in regards to monitoring were conducted with the:

- Auditor-General and Deputy Auditor-General;
- AASG Group Executive Directors (GEDs);
- Executive Directors in the AASG; and
- Executive Director and staff of the Professional Services Branch (PSB).

**6.9** Key documentation as detailed in Appendix Two was reviewed.

**6.10** Review of procedures including understanding and analysing the process for:

- ANAO monitoring policy;
- ANAO template for inspection programs and internal and external reporting provided to relevant parties; and
- reporting provided at the completion of the inspection program.

## **ANAO implementation**

**6.11** The ANAO has mechanisms for monitoring the implementation of policies and procedures relating to the Quality Assurance Framework. The key monitoring mechanisms are discussed below.

*Inspection of AASG assurance engagements, including financial statements audits*

**6.12** PAAM 130.1 *Monitoring* describes the ANAO policy for inspection of financial statements audit files.

**6.13** The Deputy Auditor-General has overall responsibility for the inspection of AASG assurance engagements, including financial statements audits. The Executive Director, PSB has responsibility for the design, conduct and reporting of inspection programs.



**6.14** The annual inspection program selects audits for inspection taking into consideration the level of engagement risk, seniority and experience of staff conducting the audit and the findings from previous inspections.

**6.15** The annual inspection program includes at a minimum one completed ANAO audit engagement for each Engagement Executive over a three year cycle and at least one mandated project-managed audit for each Engagement Executive once every three years. The inspection program for the 2011–2012 financial year included five ANAO audits, 10 project-managed audits and two audits by arrangement.

**6.16** The annual inspection program for ANAO audits is conducted by an external private sector firm and for project-managed engagements staff of the PSB perform the review. The inspection program is conducted using a test program which is designed to ensure the reviews are consistently undertaken across all audits. The test program evaluates the audit teams familiarisation with the client, planning, risk assessment, review of significant risks, general audit procedures, communications with those charged with governance, independence, consultations, involvement of the Quality Review Executive (if applicable) and completion. The external contracted firm provides an independent Quality Control Report summarising the results of their inspection program.

**6.17** In the tender process for a project-managed engagement, contractors are asked to provide details regarding the contractors own inspection programs. The contractor may nominate the financial statements audit to be included in the contractor's own inspection program.

**6.18** The findings of the inspection program are discussed with the GEDs and the Deputy Auditor-General. All findings from the inspection program are rated as compliant, needs improvement, non-compliance with ANAO policy, non-compliance with auditing standards or audit opinion is not supportable.

**6.19** The findings from the inspection program are scrutinised by the GEDs and Signing Officers to identify whether the finding is pervasive or recurring. The findings are reviewed against previous periods to determine whether the issue has reoccurred. For each finding the root cause is assessed and a conclusion on the driver made including whether the finding was a result of lack of understanding of audit methodology, and/or inadequate audit tools and assignment of personnel with the required competence and/or skills did not occur for example insufficient understanding of entity's business or key risks. The root cause of the finding drives the action to address the finding.

**6.20** The Signing Officers will discuss the results of their findings with the GEDs and the Engagement Executive will discuss the results with the Auditor-General for financial statements audits where the Auditor-General is the Signing Officer. The Executive Director of the PSB will develop an action plan. The GEDs will review and approve the plan. The findings of the inspection program are then communicated to AASG staff by the Executive Director of the PSB.

**6.21** A report detailing findings, proposed actions and status is provided to the Auditor-General and Deputy Auditor-General.

**6.22** The Professional Services Branch will also communicate findings of the inspection program to contract firms. The results are communicated via letters detailing audit results for each audit firm's applicable engagement and also the aggregate inspection results of other contract firm inspection programs. The PSB provides a presentation to all contract audit firms discussing findings, emerging issues and any security matters. For those firms outside Canberra a webinar is held.

**6.23** In addition, key audit and client matters are raised with the Auditor-General, the Deputy Auditor-General, and the Executive Director of PSB, on a weekly basis through 'Hot Issues'. The GEDs communicate key audit matters directly to the Auditor-General as required. The AASG Executive Director responsible for audit methodology and the Methodology Manager work closely with PSB on key audit matters.

#### *Methodology Support Project*

**6.24** The Methodology Support Project is a combined project between the AASG and the PSB with the assistance of a private sector audit firm. The Methodology Support Project is designed to assist the AASG improve the efficiency of financial statements audits. The project involves the review of financial statements audit files to assess how the ANAO's audit methodology has been applied to the financial statements audits to identify recommendations for the improvement of the efficient and effective conduct of the audit. The project involves the development of AASG efficiency champions within financial statements and information technology subgroups in the AASG. The project commenced in 2010–11.

**6.25** The findings of the Methodology Support Project for the 2011–12 year were reviewed by PSB and the AASG. The findings were communicated to Signing Officers in a series of information sessions and in the Audit Quality Aide-Memoir. The key actions to improve the implementation of the audit

methodology include: delivery of training on specific audit methodology concepts and changes to ANAO templates including the provision of additional guidance.

#### *ANAO client and staff surveys*

**6.26** Annually a survey of ANAO staff and AASG clients is performed. The client survey asks AASG clients to respond to questions on the audit team's overall performance, performance on individual aspects of the audit process and overall quality. The key results of the 2011–12 survey indicated that there is a high level of agreement that AASG staff had the appropriate understanding and skills, AASG reporting was appropriate and agreed AASG's consultation and communication was appropriate.

**6.27** The 2011–12 staff survey asked ANAO staff questions on leadership, job satisfaction, career development, recruitment and selection, work life balance, performance management, ANAO values and behaviour, supervisor performance and supervisor performance management. The ANAO sets key performance indicator targets and assesses the actual results against the key performance indicators. The AASG demonstrated strong results across the key indicators including staff satisfaction, employee engagement, loyalty and commitment, leadership performance and learning and development. On key performance indicators AASG ranked above APS averages.

#### *Performance management*

**6.28** Statistics relating to attendance of staff at learning and development training courses are provided to the staff member's Administration Manager, Executive Directors, the People and Capabilities Projects Governance Committee and the Executive Board of Management.

**6.29** Indicative ratings of staff set as part of the performance assessment scheme are reviewed by Executive Directors, GEDs and the People and Capabilities Strategy Committee prior to finalisation. Refer to paragraph 4.36 to 4.37 for further commentary.

**6.30** The AASG has developed an executive score card that tracks key audit and practice management matters.

#### *Annual AASG Transparency Report*

**6.31** The AASG provide a AASG Transparency Report to the EBOM. The purpose of the report is to document the AASG's compliance with the ANAO's Quality Assurance Framework. The 2011–2012 transparency report discusses

key aspects of the AASG quality assurance process and documents progress against each key results area in the 2011–12 financial year.

## Considerations

**6.32** Included below is an observation for the ANAO to consider to potentially enhance the Quality Assurance Framework with respect to monitoring. The inclusion of this consideration does not detract from the overall conclusion provided below.

### Consideration No. 3

**6.33** The Quality Assurance Framework describes how the ANAO meets the requirements of APES 320 *Quality Control for Firms* and ASQC 1 *Quality Control for Firms that perform Audits and Reviews of Financial Reports and Other Financial Information and Other Assurance Engagements*.

**6.34** The AASG submits an annual AASG Transparency Report to the EBOM. This report documents the AASG's compliance with the ANAO's Quality Assurance Framework. The 2011–2012 transparency report discusses key aspects of the AASG quality assurance process and documents progress against each in the 2011–12 financial year.

**6.35** Following the audit cycle, each Executive Director could complete a self-assessment questionnaire in respect of the performance of their audits against key aspects of the Quality Assurance Framework. This information could provide additional input into the overall AASG Transparency Report to EBOM.

### Consideration No. 4

**6.36** The annual inspection program findings are conducted in accordance with a test program. The test program for the 2012 in-house inspection had 81 compliance check procedures for in-house engagements and 83 compliance check procedures for project-managed audits.

**6.37** For each engagement subject to review, the reviewer concludes on each procedure in the test program and rates the performance as compliant, needs improvement, non-compliant with ANAO policy, non-compliant with auditing standards or audit opinion is not supportable. No further overall rating is given and all the ratings and analysis are provided to the relevant Signing Officer and the GEDs.

**6.38** The Professional Services Branch Executive Director and the GEDs review all ratings and assess using professional judgement whether the deficiencies noted, if any, are one off occurrences or systematic deficiencies and determine the corrective action required.

**6.39** The ANAO policy prescribes that where serious or extensive significant deficiencies are noted in an audit reviewed, the Engagement Executive is required to be reviewed in the following year's inspection program. It is also noted that the Public Service Act provides for specific processes for any code of conduct or disciplinary issues. The ANAO policy allows for professional judgement and does not define serious or extensive deficiencies.

**6.40** Consideration could be given to enhancing guidance to assist in the assessment of the overall rating from the review of the audit file. In addition, further detail could be developed around the consequences of unsatisfactory ratings, if any, in order to further enhance transparency and consistency in the process.

## Conclusion

**6.41** As at the date of this report, the activities and responsibilities established by the ANAO's Quality Assurance Framework in relation to monitoring of quality control for financial statements audits are consistent with the relevant requirements of ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements*.



# Appendices

## Appendix 1: ANAO's response to the proposed report



Auditor-General for Australia



12 June 2013

Mr Geoff Wilson  
Independent Auditor  
C/- KPMG  
10 Shelley Street  
SYDNEY NSW 2000

Dear Mr Wilson *Geoff*

Thank you for your letter of 8 June 2013 providing the proposed report on Quality Control around Financial Statement Audits.

I appreciate the professional approach taken on the performance audit, and in particular both the Australian and international perspectives you are able to bring to bear. The increasing demands placed on the auditing profession are no less evident in the public sector.

The ANAO places a high degree of importance on the quality of our audit and the overarching quality control framework. We have made a significant investment in the training of our staff and the supporting systems and processes so that we are able to deliver quality audits in an efficient manner.

Against this background, your performance audit is timely. We welcome the conclusion that our system of quality control over financial audits is sound. We are supportive of the four considerations you have identified as potential enhancement to our quality framework. One of the considerations, relating to maintaining a control register of potential threats to independence, has already been implemented.

Our formal response to your report, reflecting these sentiments, is enclosed for your reference.

In addition, the offer by Julian Bishop to provide a fuller briefing on the audit is appreciated, and a suitable time will be arranged.

Yours sincerely

Ian McPhee

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## Appendix 2: Key ANAO documents and external references

The following key documentation has been reviewed as part of this audit:

### Key ANAO related documents<sup>23</sup>

- Australian National Audit Office, *Audit Work Program*, July 2012.
- Australian National Audit Office, *Assurance Audit Services Group Workforce Plan 2011–2014*.
- Australian National Audit Office, *Quality Assurance Framework*, October 2012.
- Australian National Audit Office, *Assurance Audit Services Group Business Plan 2011–12*.
- Australian National Audit Office, *Assurance Audit Services Group Business Plan 2010–11, 2011–12 and 2012–13*.
- Australian National Audit Office, *Executive Staff Forum Terms of Reference*.
- Australian National Audit Office, *Signing Officer Technical Forum Terms of Reference*.
- Australian National Audit Office, *Minute of role of AASG's Audit Principals and the audit quality oversight modalities of all EL2 Signing Officers for the 2012–13 audit cycle*.
- Australian National Audit Office, *AASG Transparency Report to EBOM. 2011–12 Compliance with the Quality Control Framework*.
- Australian National Audit Office, *Protective Security Overview 2011–2012*.
- Australian National Audit Office, *Financial Statements Audit Engagement Executive Independence Confirmation*.
- Australian National Audit Office, *Financial statements audit and other AASG assurance engagements Individual Declaration of Independence*.

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<sup>23</sup> All key ANAO related documents were sourced during the fieldwork phase of this performance audit. (December 2011 to May 2012).

- Australian National Audit Office, *Financial Statement Audit Engagement Executive Independence Resolution Memorandum*.
- Australian National Audit Office, *Declaration of Personal Interests*.
- Australian National Audit Office, *Guide to Conduct in the Australian National Audit Office*.
- Australian National Audit Office, *ANAO Studies Assistance Policy & Guidelines*.
- Australian National Audit Office, *Enterprise Agreement 2011–2014*.
- Australian National Audit Office, *Assurance Audit Services Group Auditor's Handbook 2012*.
- Australian National Audit Office, *Performance Assessment Scheme*, November 2011.
- Australian National Audit Office, *Work Level Standards*.
- Australian National Audit Office, *Capability Framework*.
- Australian National Audit Office, *Audit Quality Aide Memoire: Audit Quality Guide 2013*.
- PAAM, *Leadership Responsibilities for Quality within AASG*, June 2012.
- PAAM, *Auditor-General's Mandate under the Commonwealth Authorities and Companies Act 1997*, June 2012.
- PAAM, *ANAO Independence policy (Staff and in-house Contractors)*, November 2012.
- PAAM, *Provision of other services by ANAO Contractors to ANAO audit clients*, September 2012.
- PAAM, *Role and Responsibilities of the Engagement Executive*, September 2012.
- PAAM, *Role and Responsibilities of the Quality Review Executive*, June 2012.
- PAAM, *Engagement Risk Rating*, November 2012.
- PAAM, *Role and Responsibilities of the Second Reviewer*, April 2012.
- PAAM, *Consultation*, June 2012.
- PAAM, *Differences of Opinion*, March 2011.
- PAAM, *Project Managed Audits*, November 2012.

- PAAM, *Role and Responsibilities of the Signing Officer*, June 2012.
- PAAM, *Role of the Qualifications and Accounting Policy Committee*, October 2012.
- PAAM, *Role of the Qualification and Accounting Policy Committee*.
- Orima Research, ANAO Assurance Audit Services Group 2012–13, *Financial Audit Client Survey*, February 2013.
- Australian National Audit Office, *Hitchhiker's Guide to TeamMate* (Electronic Audit Tool).
- Australian National Audit Office, *Hitchhiker Guide's to Changepoint*.
- Australian National Audit Office, *Effective Report Writing: A Guide to writing in the AASG*.
- Australian National Audit Office, *Report Writing Tips Guide*.

## External References

- ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements* issued by the Auditing and Assurance Standards Board.
- ASA 220 *Quality Control for Audits of Historical Financial Information* issued by the Auditing and Assurance Standards Board.
- APES 110 *Code of Ethics for Professional Accountants* issued by the Accounting Professional & Ethics Standards Board.
- APES 320 *Quality Control for Firms* issued by the Accounting Professional & Ethics Standards Board.
- *Auditor-General Act 1997*.
- *Public Service Act 1999*.

