Fact sheet

How we engage audit service providers

Introduction

The Auditor-General, supported by the Queensland Audit Office (QAO), audits all Queensland public sector entities, including local governments.

Our audits provide independent assurance to parliament and the Queensland community that public sector entities are reporting their financial performance accurately and managing public resources appropriately. QAO is one of Queensland's integrity bodies and a crucial part of the state's governance and accountability framework. Our independence reduces the risk of actual or perceived influence over our work, and provides for consistent audit oversight across the public sector.

While an external audit for public sector entities is required by legislation, it provides benefits beyond compliance. Our auditors identify opportunities for entities to improve financial reporting processes, governance arrangements, and internal controls. We share the insights on emerging risks and good practice that we glean from our broad body of work.

How we deliver our financial statement audits

We assess how best to deliver our financial audit program, including determining the optimal mix for audits to be delivered internally, and those that can be audited on our behalf using private sector firms (audit service providers).

When selecting our audit service providers, we consider factors such as emerging industry risks, client complexity, regional presence, sector expertise, the length of time an audit has been conducted by either QAO or a provider, and our workforce planning. It also benchmarks our costs and fees.

As a result, our team for delivering an entity's audit may transfer between QAO and an audit service provider, or between providers, to ensure we maintain the appropriate capabilities, independence, and audit quality across our service delivery program. We may engage an audit service provider firm on a client's audit for a period of up to 10 years, with one engagement partner up to a maximum of 7 years. We choose this length of time to support effective audit delivery and the ability to build strong relationships and knowledge.

Whether an audit is delivered by QAO staff or a provider, the Auditor-General remains responsible for audit quality and the audit opinion. Audit service providers operate under QAO's auditing and quality standards, and we remain involved at key stages of the audit. QAO and our providers also share expertise and learnings to increase our collective knowledge of contemporary audit methods and industry-wide insights.

Public reporting on the results of our audits, via reports tabled in parliament, is a crucial aspect of the Auditor-General's role. We are responsible for ensuring our findings and recommendations are credible and trusted by parliament and the public.

How we select audit service providers

QAO appoints audit service providers through a competitive procurement process. We invite pre-qualified audit firms to submit proposals and assess them against a range of criteria. The criteria consider client complexity and skills required, regional presence, sector expertise, and cost. We aim to keep our clients informed of the procurement processes and will seek feedback and advice on the suitability of the audit service providers.

QAO applies Queensland Government procurement policies to achieve value for money and support the use of regional auditors where appropriate. QAO may use co-sourcing arrangements to optimise skills, capability development, and resourcing across both QAO and provider teams.

We do not engage audit service providers to undertake financial audits of Queensland Government departments or integrity agencies, or performance audits. We also prohibit providers from delivering non-assurance services to their QAO audit clients without the Auditor-General's approval. We only approve non-assurance services in limited circumstances.

When selecting and appointing providers, the Auditor-General considers audit risk, whole-of-government reporting requirements, and the need to maintain an appropriate balance between outsourced audit work and audits performed by QAO staff.

Our audit service providers must have the necessary skills, knowledge, and public sector audit experience, and they must maintain audit quality to meet professional standards. We require robust security controls for protecting our clients' information.

Independence is a fundamental requirement for providers. We assess providers' independence before their appointment, prior to our signing clients' financial statements that the provider audited, and as part of our annual quality assurance program.

We are transparent in our selection, engagement, and management of audit service providers. We provide the names of and our expenditure on the providers we engage each year in our Annual report. Our yearly Transparency report provides insights into the way we audit and our audit quality, including for audits delivered by audit service providers. www.qao.qld.gov.au/about-us/our-performance-annual-report

The *Auditor-General Act 2009* and QAO's *Auditor-General Auditing Standards* guide the engagement of audit service providers. www.qao.qld.gov.au/audit-program/audit-standards.

QAO's role when a provider performs the audit

An audit service provider manages the day-to-day delivery of the audit on behalf of the Auditor-General. However, the Auditor-General remains responsible for the audit opinion meaning a QAO engagement leader signs the audit opinion we issue on our client's financial statements. QAO actively oversees the work the provider performs. We:

- identify common risks and emerging issues across sectors
- review key audit deliverables
- monitor audit quality and performance
- provide technical guidance where required
- participate in meetings with boards, audit committees, and management when appropriate.

We recognise that introducing or changing audit providers can be challenging for our clients while a new audit team develops an understanding of an entity's operations, systems, and processes. To support smooth transitions, QAO works closely with incoming and outgoing audit teams to transfer relevant knowledge while protecting our clients' information.

We gather feedback directly from our engaged audit service providers to identify opportunities for improving how we work together and deliver consistent, high-quality audit services across Queensland.

We share client feedback with providers, and work with them to ensure appropriate measures are taken to address any issues or opportunities for improvement.

Regardless of whether an audit is performed by a QAO team or a provider, information obtained through the course of our work remains confidential. Section 53 of the *Auditor-General Act 2009* imposes significant penalties for the inappropriate disclosure of protected information. All providers must formally acknowledge these confidentiality requirements before undertaking work on behalf of QAO and confirm their compliance annually. We also provide training and guidance across our workforce to reinforce responsibilities.

How to register as an audit service provider

Audit service providers are a valued and important part of our workforce. We see them as delivery partners and respect the expertise and capacity they provide to our service delivery.

QAO appoints suitable audit service providers to conduct financial audits on our behalf through a competitive selection process.

QAO invites professional services firms to express their interest in partnering with QAO by contacting us at procurement@qao.qld.gov.au.

Once firms meet the criteria, we invite them to tender for work through our annual procurement processes.

To identify the most suitable audit team for the work we will engage audit service providers for, we invite pre-qualified audit firms to submit proposals. We provide firms with information about the services required for our client, and we assess submissions against criterion. To be suitable to deliver audits on behalf of the Auditor-General, providers need to:

- have a minimum of 2 partners who are registered company auditors with the *Australian Securities and Investment Commission* (ASIC). At least one partner will be the nominated audit engagement leader
- have had no adverse findings from an ASIC inspection that has resulted in restrictions to their audit registration
- be professionally qualified with CPA Australia or CA ANZ
- operate a system of quality management that is in compliance with the Australian Auditing and Assurance Standards Board's quality standard ASQM 1
- operate a risk management system that complies with the Australian Professional and Ethical Standards Board's (APESB) standard on Risk Management for Firms (APES 325)
- meet independence requirements as established in the Auditor-General Auditing Standards (www.qao.qld.gov.au/audit-program/audit-standards). This incorporates the requirements of the Australian Professional and Ethical Standards Board's code of ethics and independence standards (APES 110)
- maintain the appropriate professional development requirements set by their professional body
- have the ability to perform engagement quality reviews
- have appropriate information systems in place for protecting information
- demonstrate experience and sector knowledge relevant to our clients
- ensure sufficient capacity and resources to deliver the audit.

Our contract auditing supply conditions outline the conditions and responsibilities that all audit service providers must agree to when engaged by QAO. We share this ahead of our procurement processes so interested providers are aware of requirements.

Given these expectations of our providers, we work closely with them once they are on board to provide guidance and support. We greatly value these partnerships.

We also manage the volume of work we allocate to an audit service provider to ensure they are not financially reliant on QAO's audit engagements. This is an independence requirement established by the APESB, designed to mitigate self-interest risk that may arise when a provider becomes overly dependent on a client relationship.

To do this we categorise firms into 3 groups, based on their number of partners, number of staff, and audit revenue from other services. These groups inform what work for which we may invite a firm to tender.

For larger or more complex appointment processes, QAO may engage an independent probity advisor.

Our procurement approach helps ensure audits are delivered consistently, to a high standard, and in a way that maintains public confidence in the audit process and its outcomes.

qao.qld.gov.au

T: (07) 3149 6000
E: qao@qao.qld.gov.au
W: qao.qld.gov.au
53 Albert Street, Brisbane Qld 4000

Queensland Audit Office
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