

2.1.2 System of Quality Management

Introduction

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

The Office adopts the standards issued by the Auditing and Assurance Standards Board (AUASB). Specific to quality management, this includes the updated suite of quality management standards:

- ASQM 1 'Quality Management for Firms that Perform Audits and Reviews of Financial Reports and other Financial Information, other Assurance Engagements and Related Services Engagements' (ASQM 1)
- ASQM 2 'Engagement Quality Reviews' (ASQM 2)
- ASA 220 'Quality Management for an Audit of a Financial Report and Other Historical Financial Information' (ASA 220).

The requirements of ASQM 2 and ASA 220 have been addressed in the corresponding policies:

- [Policy 2.2.3 'Engagement quality review'](#)
- Policy 2.2.1 'Engagement controller responsibilities for a quality audit'.

The requirements of ASQM 1 are addressed by the Office's System of Quality Management, which comprises the:

- Quality Management Policy, as detailed below
- Quality Management Framework document (Framework document)
- Monitoring and Remediation Procedure.

Policy

Quality in the Office

Audit quality in the Office means:

'the provision of timely, accurate and relevant audits, performed independently in accordance with the Auditor-General's mandate, Australian auditing standards and relevant ethical, legal and regulatory requirements. Delivering quality audits helps parliament hold government accountable for its use of public resources.'

Objective of a system of quality management

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

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

Elements of a System of Quality Management

The Office's system of quality management includes the following eight components:

Component of the system of quality management		Summary of the requirements
1	The firm's risk assessment process	<p>The Office has designed and implemented a risk assessment process to:</p> <ul style="list-style-type: none"> establish quality objectives identify and assess quality risks design and implement responses to address quality risks.
The Office has established quality objectives for components 2 through 7 relating to:		
2	Governance and Leadership	<ul style="list-style-type: none"> commitment to quality through culture – our role in serving public interest by performing quality engagements, importance of ethics, values and attitudes, responsibility of all for quality, importance of quality in strategic decisions, including financial and operating policies leadership is responsible and accountable for quality leadership demonstrate a commitment to quality through actions and behaviours the organisational structure and assignment of responsibilities is appropriate to enable the design, implementation and operation of our system of quality management resource needs are planned for and obtained and are consistent with our commitment to quality.
3	Relevant ethical requirements	<p>ensuring an understanding of ethical requirements and fulfilment of responsibilities of ethical requirements by:</p> <ul style="list-style-type: none"> staff service providers including ASPs, methodology providers, providers performing monitoring reviews etc.
4	Acceptance and continuance of client relationships and specific requirements	<p>the acceptance and continuance of client relationships and specific engagements, specifically:</p> <ul style="list-style-type: none"> judgements by the Office about whether to accept or continue a specific engagement are appropriate and the Office's ability to perform those engagements in accordance with AUASB standards and applicable legal and regulatory requirements the financial and operational priorities of the Office do not lead to inappropriate judgements about whether to accept or continue a specific engagement.
5	Engagement performance	<p>the performance of quality engagements:</p> <ul style="list-style-type: none"> engagement teams understand and fulfill their responsibility including the engagement controller being sufficiently and appropriately involved throughout the engagement the nature, timing and extent of direction and supervision of engagement teams including supervision and review of work performed by less experienced staff members exercise of professional judgement and scepticism by engagement teams consultation on difficult or contentious matters is undertaken and conclusions documented differences of opinion either within the engagement team, with the engagement quality reviewer or others performing activities within the Office's system of quality management are brought to the attention of the Office and resolved

Component of the system of quality management	Summary of the requirements
	<ul style="list-style-type: none"> engagement documentation is assembled on a timely basis after the date of the engagement report and retained to comply with relevant legal, regulatory or ethical requirements.
6	Resources:
– <i>Human</i>	<p>appropriately obtaining, developing, using, maintaining, allocating and assigning human resources in a timely manner to enable the design, implementation and operation of the system of quality management. Specifically:</p> <ul style="list-style-type: none"> personnel are hired, developed and retained and have the competence and capabilities to consistently perform quality engagements personnel demonstrate commitment to quality through actions and behaviours, are competent, and are held accountable or recognised through timely evaluations and compensation personnel are obtained externally when we don't have sufficient or appropriate in-house personnel engagement team members, controllers and staff working within the system of quality management, have appropriate competence, capabilities, sufficient time to perform quality work.
– <i>Technological</i>	ensuring appropriate technological resources are obtained or developed, implemented, maintained, and used, to enable the operation of the firm's system of quality management and the performance of engagements.
– <i>Intellectual</i>	ensuring appropriate intellectual resources are obtained or developed, implemented, maintained, and used, to enable the operation of the firm's system of quality management and the consistent performance of quality engagements, and such intellectual resources are consistent with AUASB standards and applicable legal and regulatory requirements, where applicable.
– <i>Service Providers</i>	human, technological or intellectual resources from service providers are appropriate for use in the firm's system of quality management and in the performance of engagements, taking into account the quality objectives relating to assignment of engagement team members and relevant technological and intellectual resources.
7	<p>Information and communication</p> <p>obtaining, generating or using information regarding the system of quality management, and communicating information within the Office and to external parties on a timely basis to enable the design, implementation and operation of the system of quality management:</p> <ul style="list-style-type: none"> information system identified, captures, processes and maintains relevant and reliable information culture of the Office recognises and reinforces the responsibility of staff to exchange information with the Office and one another relevant and reliable information is: <ul style="list-style-type: none"> exchanged throughout the Office and with engagement teams communicated to external parties (such as service providers) to enable them to fulfil their responsibilities for the resources provided by them.
8	<p>Monitoring and remediation process</p> <p>The Office has established a monitoring and remediation process to:</p> <ul style="list-style-type: none"> provide relevant, reliable and timely information about the system of quality management take appropriate action to respond to identified deficiencies for timely remediation.

The Office's detailed response to the above components are contained in the supporting Framework document.

Leadership responsibilities for quality within the Audit Office

The table below outlines the assignment of leadership responsibilities for quality in the Office:

Role	Responsibility
Auditor-General	<p>Ultimately responsible and accountable for the system of quality management which includes:</p> <ul style="list-style-type: none"> evaluating and concluding on behalf of the Office, at a point in time at least annually, that the system of quality management provides the Office with reasonable assurance that the objectives of the system of quality management are being achieved having an understanding of this standard, including the application and other explanatory material, to understand its objectives and to apply its requirements properly.
Deputy Auditor-General	<p>From an operational perspective, the Deputy Auditor-General is responsible for ensuring the system of quality management satisfies the requirements of Australian auditing standards and is assisted by the Office Executive in performing this role.</p>
Executive Director, Professional Services	<p>The Executive Director, Professional Services is responsible for implementing quality objectives to ensure an understanding of ethical requirements and fulfilment of responsibilities of ethical requirements by:</p> <ul style="list-style-type: none"> staff service providers including ASPs, methodology providers, providers performing monitoring reviews etc.
Executive Director, Corporate, Experience and Strategy	<p>The Executive Director, Corporate, Experience and Strategy is responsible for the design, execution and maintenance of policies supporting the system of quality management in respect of human resources (including service providers), IT security and support, external communications, and learning and development.</p>
Assistant Auditors-General, Financial and Performance Audit	<p>The Assistant Auditors-General for Financial and Performance Audit are responsible for the delivery of services to the required level of quality within their respective branches.</p>

In addition to the above leadership responsibilities, the operational responsibility for monitoring and remediation activities with respect to audit engagement quality reviews has been assigned to the Quality Audit Review Committee (the Committee). The Committee's responsibilities are set out in its [Charter](#) and is supported by the Executive Director, Professional Services in fulfilling those responsibilities.

Evaluation of the Office's System of Quality Management

At least annually, the Auditor-General, on behalf of the Office, must evaluate the system of quality management and conclude whether the system of quality management provides the Office with reasonable assurance that:

- the Office and its staff fulfil their responsibilities in accordance with AUASB standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements
- engagement reports issued by the Office are appropriate in the circumstances.

Where this evaluation identifies:

- deficiencies or
- that the system of quality management does not provide the Office with reasonable assurance that the objectives of the system of quality management are being achieved,

prompt and appropriate action will be taken along with communication to engagement teams and other individuals assigned activities within the system of quality management where relevant to their responsibilities in accordance with the Office's Monitoring and Remediation Procedures.

This evaluation process and required remedial action is highlighted in the Monitoring and remediation procedure document.

Effective date

Issued 15 December 2022 and effective 15 December 2022.