

Financial audit practice statement

The Queensland Audit Office (QAO) audits the financial statements of the state's public sector entities. This assures those entities, and the users of their published financial statements, that the information they contain can be relied upon.

We ensure that the financial statements are free from material misstatement, and that they comply with relevant legislation.

Financial statements are an important part of a public sector entity's accountability framework. They tell a reader how the government earned and spent money, and provide details of its assets and liabilities. They must be included in each entity's annual report, together with our audit opinion on their reliability.

Audit mandate

The *Auditor-General Act 2009* (the Act) requires us to audit of the consolidated fund accounts and the financial statements of every Queensland public sector entity yearly including:

- departments
- statutory bodies
- government owned corporations
- local governments
- entities controlled directly or indirectly by one or more of the above
- consolidated whole-of-government accounts
- reports of expenditure for ministerial offices.

Where asked by a minister or public sector entity, and where the auditor-general considers there is public interest, a financial audit of non-public sector entities may be undertaken on a 'by-arrangement' basis.

Our audit method

The *Auditor-General of Queensland Auditing Standards*, prepared under section 58 of the Act, require financial statement audits to comply with standards issued by the Australian Auditing and Assurance Standards Board (AuASB).

We use a risk-based audit approach designed specifically for the public sector. Its content is based on our audit expertise and better practice. It is supported by our electronic work papers and our specialised public sector audit toolset (IPSAM).

Financial statement audits have three inter-related elements:

- risk assessment
- control and substantive testing
- forming an opinion.

Fact sheet

Risk assessment

Each year we obtain or update our understanding of the risk of material misstatement, whether due to fraud or error.

We develop a strategy for how we will conduct the audit in the most efficient and effective manner and we discuss the strategy with our audit client's senior management.

Testing controls and balances

We take a risk-based approach to form our audit opinion in the most efficient way. We use risk assessments to focus our attention on those elements of the financial statements we perceive have a higher risk of material fraud or error.

We may examine and validate the effectiveness of an entity's own internal controls. Each entity head is required to establish internal controls to make sure their own financial statements are reliable, so it is often efficient for us to test these first. If we find the controls are well designed and operating as intended, we will do less direct substantiation of transactions and balances.

Forming an opinion

Throughout the audit we continuously assess the results from our audit testing, reviewing and updating our risk assessments progressively. If needed, we will extend our audit testing to obtain greater certainty about the likelihood of material misstatement.

If we cannot be satisfied that the financial statements are free from material misstatement, we consider whether we need to modify our independent audit report. The type of modification we recommend depends on the extent of material misstatement. But first we talk to the entity about the adjustments we would require to be able to issue a clear audit opinion.

We may also choose to refer to significant events in our audit report, for example, where there are concerns about an entity continuing to operate.

Communication

Annual financial audits involve the commitment of resources by both QAO and the entity subject to audit. It is therefore important that we work efficiently together. This requires high levels of communication and engagement.

Each of our audits is led by an engagement leader, who is supported by the team leader. We ask the chief finance officer and the audit committee to be actively involved in oversight of our audit, and to be able to speak authoritatively for the entity on any audit or accounting issues that may arise.

In addition to the external audit plan we issue at the beginning of each financial audit, we also provide regular updates on the results of our control and substantive testing. We may make recommendations about how agencies can improve their internal controls or financial reporting processes.

We issue a closing report at the end of the audit—before we issue our audit opinion—so that each entity is aware of the results of our work and our proposed audit opinion, before they sign off on their own financial statements.

We may also privately report matters of significance to the appropriate minister and the Treasurer.

Audit fees

Our financial audits are funded by a fee we charge to the audited entity for the service we provide and additional expenditure in providing the service such as travel.

QAO and its clients agree on the fee for the financial audit before we start work, based on our assessment of the risk and size of the audit job.

Factors that affect the fees include the maturity of the client's internal control structure, and its annual reporting processes. As these factors improve we may be able to reduce the fee.

Quality assurance

As required by our auditing standards, we perform quality control checks on our audit work before we issue an audit opinion on the financial statements.

For financial audits, the main quality requirements relate to *Auditing Standard ASA 220 Quality Control for Audits of Historical Financial Information* issued by the AuASB.

Our post-audit quality assurance reviews confirm that our quality control processes work, and that we comply with the Australian Professional and Ethical Standard (APES) 320 Quality Control for Firms.



After the financial statement audit

Parliament

The auditor-general is also required to report annually to the Legislative Assembly on the results of the financial statement audits conducted for each public sector entity. We do this through our reports to parliament which cover the results of financial audits.

These reports are sector-based; for example, health, education and resources. They identify themes and significant issues arising out of our financial statement audits, either for an individual entity or for the sector as a whole. They also provide our view on the financial sustainability of the public sector entities within, based on our understanding of key issues and risks facing each sector over time.

Follow up

We routinely follow up on our previous audit findings and recommendations at the beginning of the next financial audit.

If we are concerned that appropriate remedial action has not been taken, we will advise the chief executive and board (where one exists) of our concerns. Lack of genuine action by management to substantively address audit issues will affect our risk assessment and may mean we do more work than otherwise in the next financial audit.

Feedback

Feedback from our clients is important to us. We participate with other audit offices in an annual client feedback-benchmarking project conducted by an independent external research firm. We survey a sample of audited entities and analysing their feedback to identify areas for improvement. We use the results to identify areas for improvement, and to report on our own performance.





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