

Audit quality assessment

1. Introduction

CMA Standards Council Standard 6.7 provides:

“At intervals of no greater than every five years, the governing body must review the quality of the audit or review.”

The purpose of this paper is to set out a short rationale about why it is good governance to carry out such a review and then provide a sample process which could be useful (adapted as necessary) for an Audit Committee or a Board to carry out the review.

2. Rationale

The *Australian Charities and Not-for-profits Commission Act 2012* requires that any registered organisation with an annual revenue greater than \$3m must have its accounts audited annually, and any registered organisation with an annual revenue between \$500,000 and \$3m must have its accounts reviewed annually. The CMA Standards Council Standards also require that organisations with annual revenue under \$500,000 have their accounts reviewed annually.

The purpose of an audit and, to a lesser extent its cheaper and less intrusive cousin, a review, is to obtain an opinion from a qualified, external, independent expert that the organisation’s accounts are free from material misstatement and that they give a true and fair view of the organisation’s financial position, performance and cashflows. Audits and reviews are relied upon by numerous internal and external stakeholders of the organisation, but in particular its board and executive leadership.

In addition to preparing the formal sign off traditionally attached to your accounts, an auditor should also report either in writing or orally to the governing body of your organisation at the close of the audit process about how the audit process went, your organisation’s accounting practices and the strength of your organisation’s internal controls. This separate report (often called a management letter) can be very valuable for improving your organisation.

Auditors are typically carefully chosen by reference to their technical expertise, industry knowledge, efficiency, independence, integrity and value for money. However, no organisation sits still, and this is true both of your organisation and the auditor, as:

- people change;
- the focus or business changes;
- relevant laws and best practices change; and
- size and complexity changes.

The purpose of a periodic review is for the governing body of the organisation to assure itself that the audit or review being provided is still fulfilling its purposes for the stakeholders who rely upon it, and in particular that the auditor still ticks all the boxes for technical expertise, industry knowledge, efficiency, independence, integrity and value for money.

A review of this nature will often involve a balancing of factors – for example, it will need to weigh up the efficiency and organisational knowledge built up by a long-term auditor against the possible lack of independence from management that can result. It will not necessarily result in a change of auditor or reviewer.

Finally, while the cost of an audit or review is always a factor to consider when assessing the quality of an audit or review, we strongly recommend that the proper factor to assess in this regard is value for money rather than the actual dollar cost. It may turn out to be the case that a review shows that skimping on cost can so detrimentally affect the quality of an audit or review that it is actually of little or any value at all, thus satisfying neither the needs of stakeholders nor, potentially, the statutory requirements. A good audit can be a way of seeing your financial practices through an external set of eyes and benchmarking your organisation against best practice.

3. Audit/Review Assessment Process

We would suggest that the proper body to carry out the periodic review is either the standing Audit Committee or Finance Committee of the organisation or, if there is no such standing Committee, an ad hoc committee of the Board set up for this purpose. If an ad hoc committee is to be set up, a form of resolution that could be passed by the Board could be as follows:

“Resolved that a Committee consisting of [insert say 3 to 5 named people, a majority being Board members, but if available/appropriate including one or more “friends” of the organisation if the Board members lack accounting/auditing expertise] be established to review the quality of the organisation’s audit/review and to report back to the Board with a recommendation that the audit/review process and the auditor/reviewer remain as is, or that recommended changes be made. The Committee is to report back by [insert date].”

The first step for the Committee is to meet and plan how it will carry out the review. Typically, this would involve choosing an appropriate assessment tool, usually a Questionnaire to be filled out by individuals chosen by the Committee.

Some of the key issues which are often considered when reviewing an external auditor could include the following:

- timeliness of service
- ability to address issues unique to your organisation’s risk profile (eg funding streams, costs, regulatory environment, mission)
- general not for profit sector knowledge
- experience with tax requirements of your organisation
- sufficient staffing
- price
- chemistry/working relationship
- usefulness of the management letter
- providing value outside the audit itself (eg seminars, information updates etc)

There are several assessment tools which the Committee could use for the review. The choice of the appropriate tool will depend on the size and complexity of the organisation and the audit/review. Here are some sample tools which could be used or adapted for your purposes:

[Auditor Assessment Tool](#)

[Comprehensive Review of Auditor Tool](#)

[External Audit Performance Questionnaire](#)

[Evaluation of Incumbent External Auditors](#)

Copies of these sample tools are also available as CMA Standards Council Resource Papers.

The first 2 sample Tools may be appropriate for larger organisations, while the latter 2 may be appropriate for other organisations. They all involve chosen individuals filling out a Questionnaire.

After choosing the Tool, the Committee should decide who will be asked to complete the Questionnaire. The people asked would usually include the Chair, some or all of the Board, the CEO and the CFO or equivalent. It is usually not necessary to seek input from other members of the accounting department who deal with the auditors, but in some circumstances it may be appropriate. It may then be useful to ask the existing auditor/reviewer (either in person or in writing) some questions, such as:

- To what professional organisations do you belong?
- Does your firm have a quality control process?
- How are the members of your team supervised?
- Are members of your firm involved in relevant industry associations?
- What continuing education processes do you engage in?
- How do you and your team maintain your independence from management?
- Have you or your firm been investigated in any way by ASIC, ACNC or any professional body in relation to any ethical issues or audit quality issues in the last 5 years and, if so, provide details?
- How do you fix your fees?

After gathering in the completed Questionnaires and the responses of the auditor/reviewer to the above questions, the Committee should consider the information, meet and discuss it. After doing so, the Committee should be in a position to report back to the Board with a recommendation. It is then up to the Board to decide how to proceed.