



# Thought leadership paper

Audit quality in the public sector

June 2026

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## Executive Summary

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This thought leadership paper examines audit quality in the public sector, with a particular focus on the Australian context. While recent public debate has largely centred on private sector audit quality, the paper highlights that maintaining high-quality public sector audits is equally critical to sustaining public trust, accountability and transparency.

Audit quality is inherently complex and continuously evolving. There is no universally accepted definition; however, international frameworks emphasise that quality arises from a combination of skilled auditors, robust processes, strong governance, and meaningful reporting outcomes.

### *Foundations of Public Sector Audit Quality*

Public sector audit quality is underpinned by the independence, mandate and institutional design of Auditors-General. Unlike private sector audit firms, public sector auditors operate as independent officers of Parliament, with statutory authority to audit all public entities. These arrangements minimise conflicts of interest and reduce commercial pressures, such as profit incentives and client retention risks, that can affect audit quality in the private sector.

### *Independence is further strengthened through:*

- legislated appointment and fixed tenure of Auditors-General
- prohibition of non-audit services
- absence of financial incentives linked to audit revenue
- strict ethical requirements and rotation policies

Together, these factors provide a strong foundation for objective and high-quality audit outcomes.

### *Internal Oversight and Continuous Improvement*

Audit offices maintain quality through systems of quality management aligned with Australian and international standards, including ASQM 1 and ASQM 2. These systems incorporate:

- regular engagement quality reviews
- internal inspections and monitoring
- annual evaluations of quality frameworks
- knowledge sharing and peer collaboration through bodies such as ACAG

Audit quality indicators (AQIs)—covering inputs, processes and outputs—are increasingly used to identify and manage risks and support continuous improvement. There is no single agreed set of indicators at a national or international level.

### *Transparency and Accountability*

Transparency is a key feature of the public sector model. Audit offices report publicly through annual reports, parliamentary tabling, and in some cases dedicated transparency reports, often including audit quality indicators and inspection results. This openness reinforces public confidence and enables scrutiny of audit performance.

### *External Oversight*

Public sector audit quality is also supported by independent external oversight mechanisms. While Auditors-General are not subject to ASIC inspections or professional body reviews, they are accountable to Parliament and undergo periodic independent performance reviews. These reviews consistently find that audit offices operate effectively, while identifying opportunities for improvement.

### *Conclusion*

The paper concludes that audit quality in the public sector is sustained through a combination of strong institutional independence, rigorous internal quality controls, transparency, and external review. While distinct from the private sector model, these mechanisms collectively provide a robust framework for delivering high-quality audits that support effective governance, improved public sector performance, and confidence in the use of public resources.

## Introduction

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There has been much public debate, discussion, and at times, consternation expressed by regulators and other oversight bodies about the quality of financial and other audits undertaken by audit firms.

In its February 2020 interim report on the *Regulation of Auditing in Australia*, the Parliamentary Joint Committee (PJC) on Corporations and Financial Services observed that public concerns relating to audit quality have been raised repeatedly at both a domestic and international level; and in particular, the quality of Big Four audits on large companies has been a focus of ongoing commentary and public inquiry.

Although there has not been the same level of discussion or debate about the quality of the work done by public sector auditors, this doesn't mean that their quality is therefore assured, or that there are no issues that can adversely affect audit quality.

For this reason, in this paper the Australasian Council of Auditors-General sets out the mechanisms by which public sector auditors in Australia and their respective oversight bodies seek to understand, assure and report on the quality of their work.

Foundational settings are explored within which public sector auditors operate. These enablers of quality, where relevant, are compared and contrasted with the way accounting firms in the private sector operate.

The paper examines how auditors monitor their audit quality, and considers what audit quality indicators are used and the extent to which these are benchmarked and publicly reported.

The paper concludes by considering the external oversight mechanisms that exist, how they operate and report.

## What is audit quality

There is no widely accepted list of key factors that influence audit quality.

### International perspectives

The International Auditing and Assurance Standards Board (IAASB) notes that the pursuit of audit quality, is not a program with a definitive outcome. Rather, it is a process that ensures, through continual improvements in its elements, that audit quality evolves with the environment in which audits are performed.

In its February 2014 Audit Quality Framework<sup>1</sup> the IAASB took the term audit quality to encompass the key elements that create an environment which maximizes the likelihood that quality audits are performed on a consistent basis. In doing so it noted that “Audit quality is a complex subject and ... there is no definition or analysis of it that has achieved universal recognition.”

This notwithstanding, the IAASB Framework, (depicted in Figure 1) highlights important inputs, processes and outputs. In quality audits, auditors apply rigorous processes and quality control procedures that comply with law, regulation and standards.

The purpose of the Framework was to raise awareness of the key elements of audit quality, and thereby encourage auditors, audit firms and other stakeholders to challenge themselves about whether there is more they can do to increase audit quality in their particular environments.

The Framework emphasises the skill of auditors involved in undertaking an audit. A quality audit is likely to have been achieved by an engagement team that:

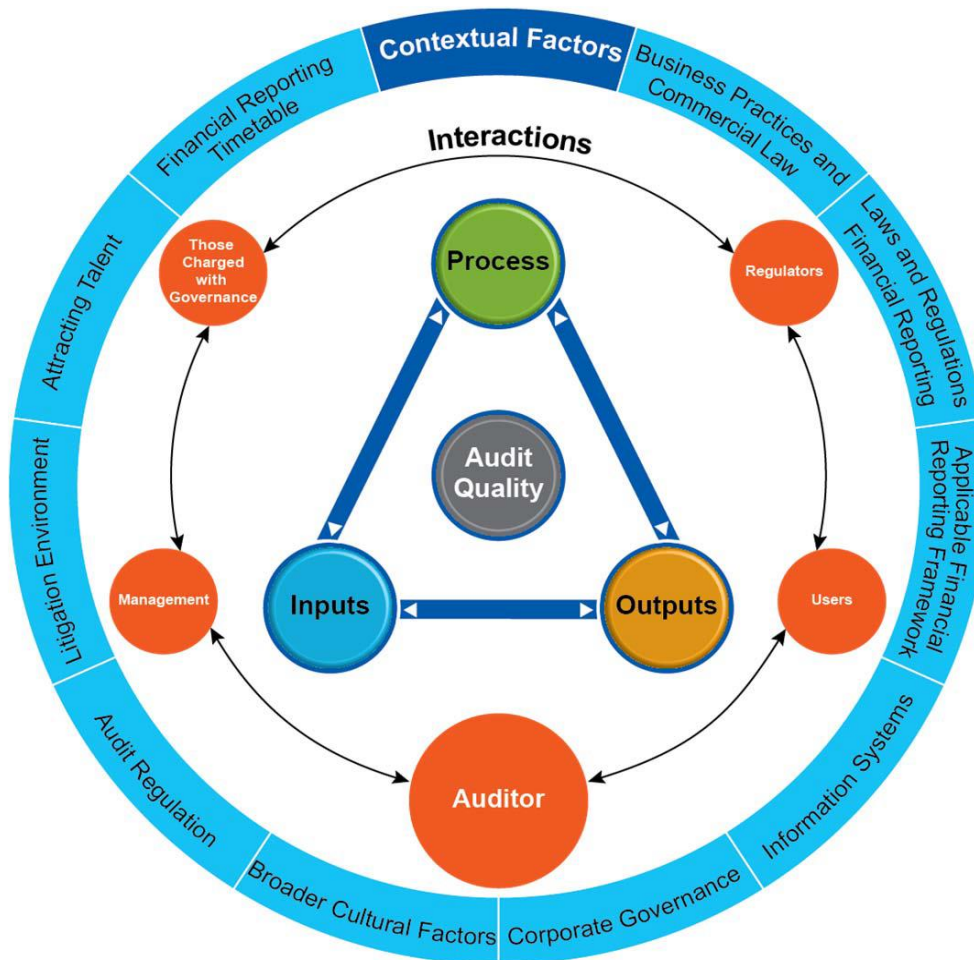
- exhibited appropriate values, ethics and attitudes
- was sufficiently knowledgeable, skilled, and experienced and had sufficient time allocated to perform the audit work
- applied a rigorous audit process and quality control procedures that complied with law, regulation and applicable standards
- provided useful and timely reports
- interacted appropriately with relevant stakeholders<sup>2</sup>.

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<sup>1</sup> [IAASB Framework](#)

<sup>2</sup> [Audit Committee Guide to Audit Quality Indicators](#)

**Figure 1 – IAASB Framework for audit quality**



Source: IAASB, 2014

The Financial Reporting Council in the United Kingdom (FRC-UK) published a report in November 2021 titled, *‘What Makes a Good Audit’*. It sets out six key elements required by audit firms to ensure they are delivering high quality audits. They include the culture, governance and leadership of the firms, alongside their investment in well qualified people, training and processes. It also includes key elements that contribute to high quality individual audits from the planning phase, through to the delivery and completion of audits<sup>3</sup>.

The United Kingdom National Audit Office states that quality is an ‘organisation-wide’ responsibility that is inherently linked to our values and underpins the quality standards we set for our work<sup>4</sup>.

<sup>3</sup> [FRC What Makes a Good Audit](#)

<sup>4</sup> (Figure 5 on page 27). [Transparency 2022-23 \(nao.org.uk\)](#)

## Australia

The Australian Securities and Investment Commission (ASIC) defines audit quality as matters that contribute to the likelihood that the auditor will:

- achieve the fundamental objective of obtaining reasonable assurance that the financial report as a whole is free of material misstatement, and
- ensure material deficiencies detected are addressed or communicated through the audit report<sup>5</sup>.

In Australia, ASIC points to the same kinds of factors as key to influencing audit quality:

- an audit firm's **culture** and focus on audit quality, professional scepticism and consultation
- the **auditor's understanding** of the business and the risks affecting the financial report
- the internal and external experience and **expertise** applied in audits (including recruitment and training, the use of experts, and specialist industry knowledge)
- how effectively audit engagements are **supervised and reviewed** (including audit firm quality reviews)
- the audit firm's **system of accountability** of engagement partners and others in the firm for audit quality (e.g. impact on remuneration for poor internal quality review findings)<sup>6</sup>.

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<sup>5</sup> [ASIC Report 678](#)

<sup>6</sup> [Auditor independence and audit quality | ASIC](#)

# 1. Foundations of public sector audit quality

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## The role of Auditors-General

Under the Westminster system of government, public sector Auditors-General, independent of governments and accountable to the Parliament, provide a check on governments' use of public resources through regular and timely financial and performance audits of public sector budgets, expenditures and activities.

The Australian National Audit Office (ANAO) states that in supporting accountability and transparency in the Australian Government sector through independent reporting to the Parliament, ANAO contributes to improved public sector performance<sup>7</sup>.

The United Kingdom National Audit Office states that their public sector audit work, particularly their value for money assessments 'saves public money'<sup>8</sup>. Each ACAG member audit office has a similar stated purpose. Summarised as *to ensure efficient and effective use of public money and to improve the performance and operations of public entities*.

## Independence

The strength of the Auditor-General's independence is the foundation on which the quality and value of the public sector audit is built. Independence in the public sector derives primarily from the mandates provided to Auditors-General by their Parliaments and the relationships between the auditor and their auditees that flow from these mandates.

These foundational characteristics manifest in ways that clearly distinguish the public sector auditor from private firms. Of themselves they do not assure quality, but they operate to substantially reduce or eliminate the potential for the perverse incentives and other pressures felt by firms that could impinge on their audit quality if not safeguarded.

During 2019-20 the Commonwealth Parliamentary Joint Committee (PJC) on Corporations and Financial Services undertook an inquiry into *Regulation of Auditing in Australia*. In its February 2020 interim report the PJC observed:

2.30 Auditor independence is fundamental to performing a high quality audit and, in turn, to enhancing users' confidence and trust in a company's financial report.

2.31 Auditor independence comprises two elements, independence of mind and independence in appearance. The independence of an auditor may be impaired by a number of factors and situations

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<sup>7</sup> [Audit Quality Report 2022–23 | Australian National Audit Office \(ANAO\)](#)

<sup>8</sup> [Transparency 2022-23 \(nao.org.uk\)](https://nao.org.uk)

that result in a conflict of interest. These include the provision of non-audit services to an audited entity, long-standing associations between an auditor and audited entity, and the existence of certain relationships that are considered non-independent.

In its October 2025 Report 819 “ASIC’s oversight of financial reporting and audit 2024–25” ASIC released its findings from its financial reporting and audit surveillances for the 12 months to 30 June 2025<sup>9</sup>.

In that report ASIC, after also considering the results from its wider program of work, observed:

We are disappointed by our findings in relation to the independence of auditors. Auditor independence underpins stakeholder trust and confidence in the audit process and the reliability of the financial information being audited. A stronger observance of independence requirements by auditors will help enhance trust; it will provide a foundation for more rigorous challenge in the audit process, leading to better financial information.

In its companion October 2025 Report 817 *Building trust: Auditors’ compliance with independence and conflict of interest obligations* ASIC observed that threats to auditor independence can arise from:

- **self-interest:** where an auditor’s own interest inappropriately influences judgement or behaviour
- **self-review:** where the results of a previous judgement made or activity performed by the auditor or another individual in their firm are relied upon when forming a judgement, and not appropriately evaluated
- **advocacy:** where the client’s position is promoted to a point where objectivity is compromised
- **familiarity:** where a long or close relationship with a client leads to being too sympathetic to their interests or too accepting of their work
- **intimidation:** where there is deterrence from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence.

These threats may arise in the private sector in part because of the underlying business models of the firms, the range of services they provide, and their appointment and tenure.

For this reason, there has at times variously been market reform proposals to:

- limit audit tenure through mandatory partner or firm rotation

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<sup>9</sup> <https://www.asic.gov.au/regulatory-resources/find-a-document/reports/rep-819-asic-s-oversight-of-financial-reporting-and-audit-2024-25/>

- involve a regulator in the appointment of auditors and/or setting of audit fees
- limit the provision of non-audit services by the incumbent auditor
- operationally split audit and non-audit services provided by audit firms.

## Mandate and tenure

### *Appointment*

A potential threat to auditor independence often raised in debate is auditor tenure with corporate clients.

Publicly listed companies must appoint a registered company auditor within one month of registration, with directors usually responsible for the initial appointment. Auditors are formally confirmed at the first Annual General Meeting (AGM) and thereafter annually.

In the public sector the Auditor-General is a statutory office holder and typically they are appointed by either the Parliament (which is the preferred model) or by the Executive, for a specified number of years. The audit legislation in each jurisdiction also mandates that the financial audit of all public sector entities is to be undertaken by the Auditor-General.

In these two respects then, the public sector entities as the subject of external audit, have no say in the appointment of their auditor; nor is there any mechanism by which they can remove their auditor.

These arrangements operate to remove self-interest and the threat of intimidation.

More information on the appointment and security tenure of Australasian Auditors-General is provided in ACAG's *Independence of the Australasian Auditors General Report 2025*<sup>10</sup>.

### *Rotation*

To limit threats to auditor independence through familiarity with an audited entity, the Corporations Act imposes strict auditor rotation requirements. Specifically, an auditor (or in the case of an audit firm or audit company, a person appointed as lead or review auditor) who has 'played a significant role' in the audit of a listed entity is prohibited from leading an audit or review of the company for more than five consecutive, or more than five out of seven successive, financial years. In other words, a 'cooling-off period' of at least two years is required.

CPA Australia noted in its submission to the PJC inquiry that while audit firm rotation may improve stakeholders' perception of auditor independence, much of the academic research on the issue has found that 'longer tenure is associated with quality and the early years of tenure with relatively lower audit quality'.

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<sup>10</sup> [ACAG Independence Report](#)

Across almost all Australian jurisdictions, the Auditor-General is appointed for a single fixed term (of between 7 and 10 years), and in all but one jurisdiction, there is no provision for their reappointment. In addition, there are narrow grounds by which an Auditor-General may be removed from office, generally related to their mal- or mis-feasance.

In this regard, while there is no capacity for ‘firm rotation’ there is, in a real sense, auditor rotation. This is because, as the statutory head of the organisation, the Auditor-General, is the “auditor”.

In practice Auditors-General typically also delegate the role of signing ‘partner’/audit engagement leader to executives and senior managers within their organisation. Where this occurs, all Australian jurisdictions have a policy of rotating these staff off auditees after a set period, generally either 5 or 7 years. All offices also enforce strict ethical codes including the requirements to declare conflicts of interest at least annually, or as they arise.

These arrangements serve to avoid the familiarity and self-review threats.

## Non-audit services

The PJC observed that a substantial part of large audit firms' business is now dedicated to the provision of non-audit services, such as advisory or consulting services, to entities they audit and other entities.

“To meet the demand created by more complex business environments, the original mandate to audit companies' financial reports has expanded to the provision of multidisciplinary professional services. Audit firms now also provide a wide range of non-audit advisory and consulting services in areas including accounting, risk, tax and policy advice, culture, technology, marketing and compliance. Such matters are integral to a company's overall performance and reporting, but are not directly included in its financial statements.”

It noted there are broadly two types of non-audit services that can be provided by an auditor to an entity they audit:

- those that are related to and complementary to the audit (known as audit-related services)
- those not related or complementary to the audit. As explained by the Australian Auditing and Assurance Standards Board (AUASB), services that are not related or complementary to the audit do not rely on any synergies in knowledge between the auditor and audited entity, whereas audit-related services require a deep understanding of the business and its systems of internal control.

In its Code of Ethics the Accounting Professional & Ethical Standards Board (APESB), established by the 3 Australian public accounting bodies (PABs), explicitly prohibits the provision of other assurance services that would involve the auditor assuming management responsibilities or that have a material impact on the financial statements of the audited

entity. In its November 2025 *Prohibitions applicable to Audit, Review and Sustainability Assurance Engagements* the following services cannot be provided to an audited entity:

- accounting and bookkeeping
- corporate finance
- valuation
- taxation
- internal audit
- designing or implementing IT systems
- legal
- promoting, dealing in, or underwriting client's shares.
- negotiating for the client
- recruiting directors/officers or senior management who would have significant influence over financial statements.

In the public sector context, in addition to the audit of financial reports, Auditors-General conduct performance audits which assess the efficiency and effectiveness of public sector activities, services and programs. Performance audits can focus on compliance with legislation, policies and accepted good practice and can highlight best practice approaches for entities to consider implementing.

The legislative audit mandates applying to Auditors-General typically provide only for the provision of these external audit services. In some cases, they allow also for some audit-related services, such as the certification of grant acquittals by local and state government entities to the public sector grant provider.

What they do not provide for, or permit, is the provision of non-audit services. Audit offices do not and cannot provide legal, taxation or other business advisory services, nor can they be internal auditors.

Many jurisdictions do however outsource some of their audit work, mainly financial audit, to private firms. The staff appointed from these firms act as agents of the Auditor-General in the main, although some may be delegated to sign audit opinions in their own right, in limited circumstances, in some jurisdictions. In this context in all jurisdictions the contracted service provider is not permitted to undertake other non-audit work prohibited by APES 110 and, they either place limits on other non-audit work that other members of the firm can provide to the audited entity, or prohibit it altogether.

The issue of non-audit services and their potential to adversely impact auditor independence and quality is highly contested. Arguments about the potential for ‘loss leading’ and reluctance to make adverse audit findings to ‘protect’ revenues for other service lines, are often countered by arguments about the benefits of multi-disciplinary teams and the greater depth of knowledge and understanding of business operations, where a firm provides both audit and non-audit services.

In this vein there is also a strong argument that the specialist public sector auditor, through their ongoing mandate, their approaches to strategic planning, and their financial and performance audit programs, develop deep knowledge and understanding of public sector operations that inform the conduct of financial and performance audits.

### Risk and return, reward and remuneration

While not explicitly raised, but needing to be countenanced in any consideration of independence, is an audit firm’s business model.

Reform proposals dealing with regulator appointment and operational separation of audit from other services in part respond to threats to independence and audit quality that may arise from firms’ commercial arrangements and profit motives.

The concentration of the Big 4 in terms of their market share of large corporates has been flagged as a potential threat to their independence, although again this is disputed territory.

While on the one hand Auditors-General are, in effect, monopoly providers and hold the entire share of public sector audit fees (or equivalent funds), they also are not for profit. There is no ability and so, no incentive to seek to, nor can they, increase their market share. Audit offices cannot provide services to the private sector. They are not competing for market share with each other operating solely in their jurisdiction, nor competing with the private sector.

Public sector audit office executives and other staff therefore cannot be remunerated or participate in any ‘profit’ share. Nor typically, are they rewarded in analogous financial bonus schemes attached to their performance. Their remuneration is often set by an independent tribunal or by the public service commission.

The absence of a profit motive and of remuneration incentives tied to revenue, removes these threats to independence. However, the way audit offices are funded can, of itself, create a different, but analogous threat.

One of the principles of independence canvassed in the ACAG Independence Report 2025 (referred to above) deals with financial and managerial autonomy from Executive government. In this regard there remains a present threat in some jurisdictions that their

funding can be (and has been) arbitrarily reduced potentially compromising their ability to attract and retain the skilled resources needed to deliver their audit programs.

## 2. Internal oversight of audit quality

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### Systems of quality management

The Australian Standard on Quality Management (ASQM 1) deals with a firm's responsibilities to design, implement and operate a system of quality management for audits or reviews of financial reports and other financial information, or other assurance or related services engagements.

Engagement quality reviews (EQR) form part of the firm's system of quality management and ASQM 1 deals with the firm's responsibility to establish policies or procedures addressing engagements that are required to be subject to engagement quality reviews. ASQM 2 deals with the appointment and eligibility of the engagement quality reviewer, and the performance and documentation of the engagement quality review.

ASQM 1 also requires firms to design and perform monitoring activities to provide a basis for the identification of deficiencies in their systems of quality management. It further requires that the individual(s) in the firm assigned ultimate responsibility and accountability for the system of quality management shall evaluate, on behalf of the firm, the system of quality management. The evaluation shall be undertaken as of a point in time and performed at least annually.

### Internal quality assurance processes

Most Auditors-General require their staff to comply with Australian Auditing and Assurance Standards set by the Australian Auditing and Assurance Standards Board (AUASB). In some Australian jurisdictions this is mandated by legislation (VIC), while in the others it is at the discretion of the Auditor-General, but generally all must 'have regard to these standards'. For example, the Auditor-General of Australia sets their own standards but these incorporate the standards issued by AUASB, and also are consistent with the key requirements of the International Standards of Supreme Audit Institutions (ISSAI).

All Australian jurisdictions adopt and comply with ASQM 1 and ASQM 2. To this end they have all documented their systems of quality management and undertake annual assessments.

They also all implement annual programs of engagement quality inspections for their programs of financial and performance audits and reviews and other applicable assurance engagements.

### Better practices and knowledge sharing

The FRC in its 2017-18 annual report noted that the accounting firms in Australia, to the extent permitted by anti-competition laws, are collaborating and sharing best practices for

the benefit of the accounting profession. Further, where a firm is part of a national or international network there is capacity for ‘peer’ reviews by other firms in that network.

Auditors-General are neither members of national nor global firm networks. Nonetheless most have regionally based analogous arrangements in place for collaboration and sharing best practice, and for peer reviews.

The Australian Council of Auditors-General (ACAG) is the association established by Auditors-General in Australia, New Zealand, Fiji and Papua New Guinea for the sharing of information and intelligence ([The Australasian Council of Auditors General](#)). Auditors-General meet at least twice a year, and through this mechanism and various sub-committees and work groups collaborate and share information on audit practices, systems and approaches. A number of audit offices also participate in reciprocal engagement quality peer reviews.

### Using indicators to aid monitoring of audit quality

There has been ongoing discussion about the need for a core suite of audit quality indicators that permit firms to measure the quality and reliability of their audit results and processes. Tracking and reporting on such indicators is an integral part of the monitoring and self-assurance processes adopted by firms.

The FRC-UK notes that AQIs are quantitative and qualitative measures of external audit quality, including input, output, and outcome measures. They indicate the firm’s historical, present or future ability to perform quality audits, as well as providing insights into audit quality when read with other AQIs and relevant context<sup>11</sup>.

There is agreement by regulators and professional bodies that audit organisations need to select the AQIs which provide the most meaningful insights on audit quality relevant to their context and that AQIs initially selected will evolve over time.

The Canadian Public Accountability Board (CPAB), Canada's independent, public company audit regulator, observe that AQIs have the potential to influence audit quality positively, however, since there is no “one size fits all” approach, organizations must develop their own rationale for selecting and evaluating AQIs<sup>12</sup>.

To date no consensus has been reached nationally or internationally as to what these indicators should comprise. A number of regulatory and oversight bodies have however variously proposed a suite of measures, and most firms have established AQIs for their own use.

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<sup>11</sup> [FRC Consultation Document: Firm-level Audit Quality Indicators](#) p4

<sup>12</sup> [Audit Committee Guide to Audit Quality Indicators](#)

Figure 2 summarises some of the most common indicators proposed by various regulators and government bodies or being used by firms and so in this sense represent a consensus view.

**Figure 2 – commonly proposed audit quality indicators**

Dimension	Measures	Indicators
Outputs	Reliability of audited financial statements	Percent of audited statements disclosing prior period material errors
		Percent of audited statements required to be reissued to correct material errors
Processes	Results of engagement file inspections	Percent of audit files inspected with unsatisfactory findings, preferably disaggregated by risk and/or severity ratings
	Workload	Partner, manager and staff audit workloads as percentage of their annual standard available paid hours.
	Leverage	Percentage of audit hours carried out by senior engagement team members compared to the entire engagement team
Inputs	Competence	Annual percentage turnover of audit staff – total departures divided by average annual staff levels
		Average training hours per audit professional
	Technical support	Average years of audit experience – preferably also by partner, manager, and audit seniors.
Percentage of employees (number and hours) employed in technical accounting and auditing support and internal advisory		
		Percentage of employees (number and hours) with specialized skill and knowledge.

Since 1994, ACAG has incorporated a suite of quality indicators within in its annual macro benchmarking (MBM) survey. This annual survey collects information about each participating audit office’s professional resources and practices and enables inter-jurisdictional comparisons and benchmarking between offices and over time.

Most Australian audit offices participate in the annual survey. While the detailed results are not published, the individual results for each jurisdiction together with jurisdictional averages are shared amongst ACAG members. The measures included in the survey that speak to audit quality, and the jurisdictional averages for 2024-25 are set out in Figure 3.

**Figure 3 – audit quality indicators in ACAG annual Macro-benchmarking report**

Dimension	Measures	Indicators	Average	
Processes	Workload	Average audit hours charged per FTE professional audit staff:		
		- attest audit	1,111 hrs	
		- performance audit	905 hrs	
		- overall	1,106 hrs	
	Leverage	Percentage of time charged to audits by senior staff compared to the entire engagement team:	- attest	25%
			- non-attest	48%
Inputs	Competence	Training hours per FTE audit professional:		
		- attest	121 hrs	
		- non-attest	85 hrs	
		- overall	111 hrs	
	Technical support	Percentage of FTE staff allocated to Audit Standards/ Quality Assurance/ Methodology activities		2%
			Technical resources staff paid hours as a percentage of all hours charged to audit activities:	
			- Data analytics	9%
	- Other technical	5%		

## Transparency

In Australia, the *Corporations Act 2001* requires auditors of listed companies to publish a transparency report each year detailing the quality systems, checks and balances an audit firm uses to ensure the robustness and quality of its audits. The main aim of publishing transparency reports is to inform the market about each firm’s audit quality to facilitate investor decision making and confidence.

In most jurisdictions around the world, transparency is legislated in the work of the Auditor-General, such as tabling audit reports in the Parliament and publishing audit reports for public information. In addition, Auditors-General will prioritise transparency and publish information that is not mandatory to disclose but do so in the public interest.

As public sector entities, audit offices do not have to produce a transparency report. Instead, they must produce annual reports, and these are tabled in Parliament. These reports typically contain some of the content that is usually found in a firm’s transparency report.

In addition, as the public sector equivalent of a private sector audit firm, some audit offices in Australia choose to adopt the requirements of the *Corporations Act* to the extent they are relevant and appropriate to the audit office as part of their commitment to transparency and accountability. To this end they either publish a stand-alone transparency report to augment their annual reports, or they map the content of their annual reports to ASICs disclosure requirements.

ASIC encourages firms to include indicators of audit quality used by the firm in their transparency reports, with appropriate caveats on their use and interpretation.

Most Australian audit offices publicly report their audit quality indicators, in either or both their annual and their transparency reports, as well as the results of their internal inspection programs. The Appendix provides examples of how ACAG members prioritise transparency in relation to audit quality in their jurisdictions.

### 3. External oversight of audit quality

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In addition to internal quality assurance practices, there are also external international and national regulatory bodies that play an oversight function to ensure audit quality for the public and private sector.

#### Private sector

##### International

The International Auditing and Assurance Standards Board (IAASB) sets high-quality international standards for auditing, assurance, and quality management that strengthen public confidence in the global audit and assurance profession.

In December 2015, the IAASB issued an invitation to comment titled *‘Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control, and Group Audits’*<sup>13</sup>.

The impetus for its paper, with its 3 focus areas, arose in part from the IAASB’s outreach program with audit inspection bodies, regulators, audit firms, and national auditing standard setters and others. The outcomes from this collaboration and from the IAASB’s own monitoring of the implementation of the then ISQC 1 *“Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements”* told them they “need to act to improve standards [and/]or auditor performance”.

The IAASB observed then:

“In recent years, audit oversight bodies have become more active and internationally cooperative. They have intensified inspections, and their publicly reported inspection findings highlight aspects of the audit where improvements to audit quality are needed. For example, in 2014, the International Forum of Independent Audit Regulators – IFIAR – reported persistent deficiencies in important aspects of audits, including the three topics addressed by this consultation.”

##### Australia

In so much as it pertains to the quality of audits of financial statements of private sector entities, Australia has comprehensive legislative and professional requirements, with the main legislative requirements set out in the *Corporations Act 2001* (Corporations Act).

There are 3 primary audit oversight bodies (AOBs) with varying powers, functions and roles:

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<sup>13</sup> <https://www.iaasb.org/publications/invitation-comment-enhancing-audit-quality-public-interest-1> - accessed 30 January 2026

- Financial Reporting Council (FRC) – the statutory advisory body responsible for overseeing the effectiveness of Australia's financial reporting framework. The FRC's role includes the oversight and setting of the broad strategic direction of the AASB and AUASB
- Australian Securities and Investments Commission (ASIC) – the key regulator under the Corporations Act and has responsibility for the surveillance, investigation and enforcement of the financial reporting requirements of the Corporations Act, including the regulation of audit requirements.
- professional accounting bodies (PABs) – comprising Chartered Accountants ANZ; CPA Australia; and the Institute of Public Accountants (IPA).

#### *Financial reporting council*

The FRC's key functions include:

- the oversight of the accounting and auditing standards setting processes for the public and private sectors
- providing strategic advice in relation to the quality of audits conducted by Australian auditors.

In its Audit Quality Action Plan March 2023, the FRC stated it would continue to “review how audit quality is supported and monitored in Australia holistically and evaluate if any improvements are necessary.”

The FRC is to be replaced by External Reporting Australia in 2026, which will combine the existing standard-setting functions of the Australian Accounting Standards Board (AASB), Auditing and Assurance Standards Board (AUASB) and Financial Reporting Council, and be responsible for accounting, auditing and assurance, and sustainability standards.

#### *ASIC Audit Inspection Program*

ASIC has regulatory responsibility for surveillance, investigation, and enforcement of the financial reporting and audit requirements of registered company auditors (RCAs). ASIC is responsible for administering the requirements of the Corporations Act as it relates to auditor independence (Divisions 3, 4 and 5 of Part 2M.4) and audit quality (Division 3 of Part 2M.3).

This is done through ASIC's audit surveillance program which has an objective to promote the improvement and maintenance of audit quality. ASIC inspects audit firms that audit listed entities and significant public interest entities.

These are mostly large and medium size firms that are not subject to a duplicate review by the professional accounting bodies. All audit partners reviewed are RCAs.

The audit surveillance program mainly consists of risk-based reviews and ASIC also perform separate surveillances as a result of complaints or linked to other information received, or another investigation.

On page 15 of its Annual Report 2017-18, the FRC observed “The ASIC Audit Inspection Program results released in June 2017 showed a lack of improvement for listed and significant public interest entities and that ASIC believed further work and, in some cases, new or revised strategies were needed to improve audit quality.”<sup>14</sup>

It noted also in that report that “The Big 4 accounting firms are all members of their respective global firm networks which are also reacting to the International Forum of Independent Audit Regulators (IFIAR) annual inspection findings which show a general improvement but the level of findings continues to be of concern to IFIAR.”

#### *PAB quality review programs*

The FRC observed that the PABs are sometimes described as co-regulators of auditors who are their members, with ASIC. However, the PABs do not have any statutory powers or responsibilities in regard to audit oversight and therefore are not co-regulators<sup>15</sup>.

Each PAB is a member of the International Federation of Accountants (IFAC) and is required to comply with IFAC’s Statements of Membership Obligations (SMOs). The SMOs provide clear benchmarks to IFAC member organisations and core competencies for PABs to serve and function in the public interest.

The PABs are required to perform quality review programs which are governed by IFAC’s SMO 1 *Quality Assurance*. SMO 1 covers how to plan and perform quality assurance reviews of firms and individual members (including auditors) and take appropriate corrective action for non-compliance.

SMO 1 allows PABs to give due consideration to quality review programs operated by other appointed authorities (e.g., ASIC) to ensure there is no undue overlap between the programs.

The FRC stated that it understands that the 3 PABs in Australia conduct reviews of members who are auditors who they believe will not be reviewed by ASIC, and as a result, the PABs do not review engagement files of the largest 6 and some mid-tier firms.

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<sup>14</sup> [https://frc.gov.au/sites/frc.gov.au/files/2018/10/FRC\\_Annual\\_Report\\_2017-18\\_WEBAW.pdf](https://frc.gov.au/sites/frc.gov.au/files/2018/10/FRC_Annual_Report_2017-18_WEBAW.pdf) - accessed 30 January 2026

<sup>15</sup> [Oversight of Audit Quality in Australia](#)

Each PAB provides public information about its quality review programs:

- The Quality Review Program (the Program) is an integral component of Chartered Accountants ANZ’s professional compliance framework. The Program is designed to assess whether the approximately 14,300 Australian Certificate of Public Practice holders and affiliates (auditors and non-auditors) have implemented appropriate quality control policies and procedures in their practices.
- CPA Australia members who hold a Public Practice Certificate (approximately 6,650 members) are subject to the CPA Australia Quality Review Program. These reviews include members who are RCAs and registered SMSF auditors.
- The IPA requires all members who are issued with a Professional Practice Certificate to undertake a Professional Practice Quality Assurance Review every 3 to 5 years. All RCAs and SMSF Auditors are required to be reviewed every 3 years.

## Public sector

Auditors-General and their staff are not required to hold public practice certificates; and their mandates include only a small number of government owned Corporations. As such they are not subject to ASIC surveillance or inspections nor to PAB quality reviews.

They are however subject to Parliamentary oversight and public scrutiny. The audit legislation in each jurisdiction provides for some form of independent periodic review of the performance of the Auditor-General and their office, as set down in Figure 4.

These independent reviews in general are commissioned by the Parliamentary Committee charged with oversight of the Auditor-General and the results of the reviews are tabled in Parliament or otherwise published.

**Figure 4 – External oversight of the performance of Auditors-General and their offices**

Jurisdiction	Legislative provisions	Latest report
ACT	S 24 Strategic review for the Auditor General must be carried out once in each term of the Legislative Assembly. S 27 External reviewer has all the same functions the AG has under performance audit.	<a href="#">April 2024</a>
Australia	S 45 The independent auditor may, at any time conduct a performance audit of the Audit Office.	<a href="#">August 2022</a>
New South Wales	S 48A A review of the Audit Office is to be conducted at least once every four years by a person appointed by the Public Accounts Committee.	<a href="#">Sept 2022</a>

Jurisdiction	Legislative provisions	Latest report
Northern Territory	S 26 Strategic review of the Auditor-General's Office must be conducted not less than every three years by an appropriately qualified person appointed by the Administrator.	<a href="#">Nov 2024</a>
Queensland	S 68 A strategic review must be conducted at least every five years. Each review will be conducted by an appropriately qualified person appointed by the Governor in Council. Minister may make a recommendation to the Governor in Council regarding the appointment of a reviewer or the terms of reference for a strategic review only with the approval of the parliamentary committee. (previously only required Minister to consult with the committee) s.69 reviewer has powers of an authorised auditor. s.70 reporting requirements for the strategic review. The chair of the parliamentary committee is required to table the report of the reviewers in parliament within 3 sitting days (previously this was to be done by the Minister).	<a href="#">Dec 2023</a>
South Australia	S 35 The Governor may appoint an auditor to audit the accounts of Auditor's Office. S 37(1)  Where in the opinion of the independent auditor, action is necessary in the public interest that is in relation to a matter that has come up in the course of examination and economy with which the Auditor General uses its resources, the independent auditor must table a report for Parliament.	n.a.
Tasmania	S 44 The Tasmanian Audit Office (TAO) is subject to review of the efficiency, effectiveness and economy of its operations at least once in every 5 years by an independent auditor appointed by the Governor.	<a href="#">March 2024</a>
Victoria	S 82 An audit shall be conducted at least once every 4 years to determine whether Victorian Auditor General's Office (VAGO) is achieving their objectives effectively, economically and efficiently. The independent audit will be appointed by Public Accounts and Estimates Committee and is subject to direction from PAEC.	<a href="#">July 2024</a>
Western Australia	S 40(2)(c) Independent auditor must consider key performance indicators to assess the Office of Auditor General's performance over this period.  S 48(3)(b) Joint Standing Committee on Audit (JSCA) to appoint a suitably qualified person to conduct a review relating to the performance of the Auditor General and the Office of the Auditor General [s48(1) as soon as is practicable after the fifth anniversary of the commencement of the Auditor General Act 2006 and the expiry of each 5 yearly interval after that anniversary].	<a href="#">Nov 2024</a>

The overall objectives of the reviews are to form a conclusion on whether the jurisdiction is operating 'economically, efficiently and effectively'; and their terms of reference typically include consideration of the system of audit quality. They also typically involve the independently appointed reviewers examining a selection of financial and performance audit files, analogous to the ASIC inspection and professional body peer review programs of work.

The most recent (and past) reviews of each jurisdiction have formed overall conclusions that each is operating economically, efficiently and effectively. As always areas for improvement are identified, but no significant weaknesses in systems of quality control have been found over the many years that these reviews have been undertaken.

## Appendix: ACAG members prioritising transparency

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The Australian National Audit Office (ANAO) published its Audit Quality Report 2024-25<sup>16</sup> and information about audit quality in its Annual Reports and Corporate Plans. These reports include metrics related to audit timeliness, stakeholder feedback, and compliance with auditing standards.

The Victorian Auditor-General's Office (VAGO) published a Transparency Report 2025<sup>17</sup> outlining its audit quality management system. Audit quality information is also available in Annual Reports. VAGO states that their 'transparency report focuses on how our quality control system supports our auditors to perform high-quality financial and performance engagements of public institutions'. VAGO audit reports can be accessed via the VAGO website: <https://www.audit.vic.gov.au>.

The Queensland Audit Office (QAO) produces its transparency report to "demonstrate commitment to transparency and...determination to continuously improve"<sup>18</sup>. Covering the 2023-24 period, the QAO Transparency Report outlines in detail its quality management framework and systems and how these are regularly measured internally.

The Audit Office of South Australia provides insights into its audit processes and audit quality through its Annual Reports. These reports cover performance metrics that reflect the quality and timeliness of audits conducted. South Australia's reports can be accessed on their website <https://www.audit.sa.gov.au>.

The New South Wales Audit Office publishes reports that provide information on audit performance, including indicators like audit timeliness and the implementation of external independent review recommendations. The office regularly updates its methodologies to ensure high-quality audits. The New South Wales Audit Office reports can be accessed on their website <https://www.audit.nsw.gov.au>.

In addition to its Transparency Report, the Western Australian Office of the Auditor-General published an Audit Practice Statement in 2022 as required by section 24(2)(b) of the Western Australian Auditor General Act 2006 (AG Act). It informs Parliament of any major change in the extent or character of the audit function and offers a concise summary of why, who and how the WA OAG audits. It also includes information on their ethical standards and commitment to audit quality.<sup>19</sup>

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<sup>16</sup> [Audit Quality Report 2024–25 | Australian National Audit Office \(ANAO\)](#)

<sup>17</sup> [VAGO Transparency Report 2025](#)

<sup>18</sup> [Transparency report 2023–24 | Queensland Audit Office](#)

<sup>19</sup> [Audit-Practice-Statement-February-2022.pdf](#)