



Parliamentary Joint Committee on Corporations and Financial Services: Statutory Oversight of the Australian Securities and Investments Commission

Ms Merran Kelsall, Chairman, Auditing and Assurance Standards Board (AUASB)

15 March 2013, Sydney

Opening statement

- Thank you for your invitation to present an opening statement to the Parliamentary Joint Committee this morning. I will endeavour to be as brief as my colleague, FRC Chairman, Lynn Wood.
- The AUASB's Australian Auditing Standards (ASAs) predominantly adopt and conform with the full suite of International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB). As indicated in each of our Auditing Standards, compliance with ASAs enables compliance with ISAs.
- In October 2009, the AUASB re-issued its suite of some 40+ Australian Auditing Standards in a new "clarity format", in-line with the revised standards of the IAASB. These standards became operative for financial reporting periods commenced on or after 1 January 2010. Included in these new standards are the vitally important Auditing Standards, ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements* and ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information*.
- The International Auditing Standards are amended by the AUASB prior to their release as Australian Auditing Standards, where necessary, to suit the Australian regulatory environment. This is undertaken in particular with regard to specific considerations imposed by the *Corporations Act 2001*. Furthermore, the AUASB's Australian Auditing Standards are all subject to separate public exposure in Australia and regulatory impact assessment and clearance through the Office of Best Practice Regulation.
- With regard to engagement with ASIC on the subject of audit quality, the AUASB through myself as its Chairman and senior staff, conduct periodic liaison meetings with senior staff of ASIC. These meetings are additional to holding specific discussions from time to time, on a needs basis to discuss particular issues. Furthermore, on 26 November last year, an ASIC Commissioner and a senior staff member presented to

the AUASB at its Board meeting, to discuss general issues including those pertaining to audit quality, emanating from the annual ASIC audit inspection program and to discuss general issues of an audit regulatory nature. I should point out however, that it is the practice of ASIC to maintain discussions with the AUASB at an “in-principle” issues level only, rather than raising issues specific to certain entities or certain audit firms.

- In June 2012, the AUASB in conjunction with the Australian Institute of Company Directors and the Institute of Internal Auditors-Australia issued a new edition of its *Audit Committees – A Guide to Good Practice*. This is now the fourth iteration of this joint publication, and it has again been well-received by both the corporate and regulatory communities.
- The AUASB in August 2012, also issued the following AUASB Bulletins which promote enhanced audit quality: *Professional Scepticism in an Audit of a Financial Report* and *Auditing Considerations in a Prolonged Uncertain Economic Environment*. The need for professional scepticism in an audit cannot be overemphasised. Scepticism is an essential attitude for all auditors, which enhances the auditor’s ability to exercise professional judgement in identifying and responding to conditions that may indicate possible misstatement. Professional scepticism includes a critical assessment of audit evidence. It also means remaining alert for evidence that contradicts other audit evidence or that brings into question the reliability of information obtained from management and those charged with governance. The consistent application of professional scepticism is imperative for auditors to draw appropriate conclusions in the conduct of their work resulting in high quality audits. Auditors also need to be mindful that in a prolonged period of economic uncertainty, it is particularly important they exercise professional judgement and professional scepticism in identifying and assessing the potential and actual impact of such an environment on the individual entity’s financial report.
- The AUASB together with CPA Australia and The Institute of Chartered Accountants in Australia (ICAA), will next week be holding Roundtables on the subject of Audit Quality on 20 and 21 March in Melbourne and Sydney respectively. The Roundtables will provide a valuable opportunity for an exchange of views with stakeholders in a dynamic manner and enable high level input, from an Australian perspective, into the further development of the issues outlined in the IAASB’s Consultation Paper, *A Framework for Audit Quality*, issued earlier this year.
- Through the proposed Audit Quality framework, the IAASB, and in turn the AUASB, aim to raise awareness of the key elements of audit quality, encourage stakeholders to explore ways to improve audit quality, and facilitate greater dialogue between key stakeholders on the topic. The IAASB is seeking responses to several questions listed in the Consultation Paper, in particular, whether the framework is clear, comprehensive, and useful. In developing the framework, the IAASB has also identified, with the input of stakeholders, a number of areas for consideration by both auditors and other participants in the financial reporting supply chain that may benefit audit quality on a

global basis. Following the Roundtables, the AUASB will be making a formal submission to the IAASB on its proposed Framework.

- In relation to audits of managed investment schemes, in August 2009 the AUASB updated and re-issued Guidance Statement GS 013 *Special Considerations in the Audit of Compliance Plan of Managed Investment Schemes*, which provides guidance to auditors on various matters relating to the audit of compliance plans of registered managed investment schemes established in accordance with the requirements of the *Corporations Act 2001*. GS 013 links-in directly with ASIC regulatory guide RG 132 *Managed investments: Compliance plans*. The AUASB also re-issued a related Guidance Statement GS 014 *Auditing Mortgage Schemes*, which relates to ASIC regulatory guide RG 144 *Mortgage investment schemes*. Since the release of GS 013 and GS 014, the AUASB has from time to time, raised in discussions with ASIC, whether changes need to be made to its guidance in this area, and late last year, received ASIC's response to this request. As a consequence, the AUASB will be working in consultation with ASIC during 2013, on proposed revisions to these Guidance Statements as ASIC revises the above and other applicable Regulatory Guides in this area.
- I trust that the above background information will be useful to the Committee's current Inquiry.

Merran Kelsall

AUASB Chairman

Background – FRC Strategic Direction to AUASB dated 4 April 2005.

I am writing to advise you that, at its meeting on 4 April 2005, the Financial Reporting Council (FRC) considered the desirability of giving the Auditing and Assurance Standards Board (AUASB) a broad strategic direction on the development and making of Australian Auditing Standards (AUSs).

The FRC's ability to issue a strategic direction comes from paragraph 225(2A)(d) of the Australian Securities and Investments Commission Act 2001 (ASIC Act), which provides that the functions of the FRC include determining the AUASB's broad strategic direction.

At its meeting, the FRC resolved that the following strategic direction should be given to the AUASB:

- (a) The AUASB should develop AUSs that have a clear public interest focus and are of the highest quality.*
- (b) The AUASB should use, as appropriate, International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as a base from which to develop AUSs.*
- (c) The AUASB should make such amendments to ISAs as necessary to accommodate and ensure that AUSs both exhibit and conform with the Australian regulatory environment and statutory requirements, including amendments as necessary for AUSs to have the force of law and be capable of enforcement under the requirements of the Corporations Act 2001 by 30 June 2006.*
- (d) The process of developing AUSs should include monitoring and reviewing auditing and assurance standards issued by other standard setting bodies in other national jurisdictions and considering other matters relevant to achieving the objectives of Part 12 of the ASIC Act. Consequently, where appropriate and considered to be in the public interest and necessary to producing standards of the highest quality, the AUASB should incorporate additional requirements in its AUSs.*
- (e) The AUASB should continue to develop auditing and assurance standards other than for historical financial information as well as developing and issuing other guidance on auditing and assurance matters, and may participate in audit research that is conducive to, and which significantly benefits, the standard-setting activities of the AUASB.*

In addition, the AUASB should have regard to any programme initiated by the IAASB for the revision and enhancement of ISAs and make appropriate consequential amendments to AUSs.

While the strategic direction makes no reference to the AUASB participating in the work of international bodies such as the IAASB, the FRC strongly encourages the involvement of the AUASB in such work. This approach is consistent with paragraph 227B(1)(d) of the ASIC Act, which provides that one of the functions of the AUASB is to participate in and contribute to the development of a single set of auditing standards for world-wide use.

I take this opportunity to confirm that I will be attending the meeting of the AUASB scheduled to be held in Sydney on 13 April 2005.

Yours sincerely

*Charles Macek
FRC Chairman*