

## Joint Committee on Corporations and Financial Services

### Answers to Questions on Notice

**Department/Agency:** Australian National Audit Office

**Inquiry:** Inquiry into the regulation of auditing in Australia

**Committee Member:** Mr Steve Georganas MP, Deputy Chair

**Type of question:** Hansard

**Date set by the committee for the return of answer:** 20 December 2019

**Number of pages:** 1

#### **Question:**

Mr GEORGANAS: The other question I had was about incidences where the work—and I don't know whether you can give us this information—has just not been up to scratch, and you've—

Mr Hehir: It's quite rare.

Mr GEORGANAS: But it has happened?

Mr Hehir: Yes.

Mr GEORGANAS: I don't know whether you can—

Mr Hehir: We can probably give you examples; I'll take it on notice for what the nature of the issues were. But it is quite rare. Some of them may come down to a judgement issue. We probably run a lower risk appetite than private sector audits in some particular areas.

#### **Answer:**

As it does for audit files prepared internally, the ANAO undertakes a Quality Assurance process on a sample of audit files prepared by contracted firms after the issuance of the auditor's report. The ANAO also reviews selected elements of the contracted firms' audit files before each auditor's report is issued. The following are examples of areas where the ANAO has identified issues with the work performed by contracted firms:

- in respect of using the work of a management's expert, there was a lack of evidence to support compliance with ASA 500 *Audit Evidence*. Furthermore, the contract firm's audit documentation did not demonstrate that reasonable professional scepticism had been applied in this area;
- in respect of the procedures performed to provide assurance on revenue, there was a lack of sufficient audit evidence on file to support the completeness and accuracy of a material revenue item;
- there was no documented evidence of the auditor's consideration, nor an assessment of management's position for the accounting treatment of grants in accordance with the relevant accounting standard (AASB 1004 *Contributions*); and
- from a review of an entity's draft financial statements, the ANAO noted an apparent inconsistency in the accounting treatment for the capitalisation and subsequent impairment of property plant and equipment and provisions related to a specific asset.

The actions taken by the ANAO to address the above matters include:

- reviewing further evidence to gain assurance that there was sufficient appropriate audit evidence to support the audit opinion on the financial statements as a whole;
- undertaking further analysis using information from the contract firm's audit file so that the ANAO was satisfied that the auditor's report was appropriate;
- requesting the contracted firm to undertake further audit work and analysis and then re-reviewing the work performed before the financial statements and associated auditor's report were finalised; and
- meeting with the nominated relationship partners from the contracted firms to discuss quality issues identified.

In addition, an area where there can be a difference in judgement and risk appetite between the ANAO and contracted firms is the assessment of reporting identified weaknesses or issues to the audited entity and those charged with governance. The ANAO reports all matters identified. This enables the identification and reporting to Parliament of common risk areas or themes arising across all of the ANAO's audits.