

Strategic Project Outline

Project Title: Engagement with Regulators
Project ID:
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AUASB Sponsors: Robin Low

I. Background

1. The AUASB has committed in their strategic plan to promote initiatives that enhance audit and assurance consistency and quality.
2. The quality of financial reports is critical to confident and informed markets and investors. The objective of the independent audit is to provide confidence in the quality of financial reports[#]. Improving audit quality and the consistency of audit execution and auditor reporting is essential to continued confidence in the independent assurance provided by auditors.
3. Inspection findings by audit regulatory bodies continue to highlight issues with audit quality. For example as noted by ASIC in their *audit inspection program report for 2015-16*. The AUASB recognises that they have a role to play in promoting and supporting audit quality by developing and maintaining quality auditing standards and appropriate guidance.
4. The AUASB is alert to a level of inconsistency of assurance reporting by issuers of prescribed reports. These prescribed reports may be legally binding (cannot change, must follow word for word) or just preferred; and the prescribed wording may be on the entire report or on the opinion only. Such inconsistencies may stem from a lack of understanding of issuers as to the types of assurance and this may lead to user expectation gaps that in turn results in diminishing audit quality.
5. APRA requires APRA regulated industry entities to have additional assurance over and above the financial report, on annual returns and controls. APRA prescribes the level of issuance and the format of reporting. It is critical that the AUASB remains involved in the wording of the prescribed APRA assurance report requirements so as to ensure the said requirements meet AUASB standards and accordingly can fulfil user needs.

II. Purpose of Session

6. To facilitate an informed discussion with the AUASB members leading to recommendations as to how to move forward in order to ultimately meet the project objectives.

[#] This paper also covers other assurance engagements

III. Scope

7. The following regulators fall inside the scope of this project proposal:

<i>Regulator</i>	<i>Context</i>	<i>Why</i>
ASIC	Audit inspection findings	Assist with improving use of standards and improvement of audit quality.
APRA	Prudential regulator (financial institutions) – prescribed assurance reports	To facilitate appropriate prescribed assurance reports that meet user needs and meet AUASB standards.
ATO	Regulator of SMSFs	To assist with the audit quality of SMSF audits and to facilitate appropriate prescribed assurance reports that meet user needs and meet AUASB standards.
CER	Prescribed assurance reports	To facilitate appropriate prescribed assurance reports that meet user needs and meet AUASB standards.

8. The following regulators fall outside the scope of this project proposal:

<i>Regulator</i>	<i>Why</i>
ACNC	To be dealt with under a separate strategic project.
ACCC	No direct assurance needs/impacts identified.
FIRB	No direct assurance needs/impacts identified.
ASX	No direct assurance needs/impacts identified.

IV. Project objectives, public interest benefits, link to corporate strategy and short, medium and long-term goals:

Project Objectives

9. The project objectives are for the AUASB to better understand:

- a) audit and assurance issues identified through inspection reports impacting negatively on audit quality, in order to identify how the AUASB, as a stakeholder in the financial reporting supply chain, can assist in the improvement of audit quality; and
- b) audit and assurance needs and requirements of government agencies, so that appropriate levels of assurance, suitable to user needs, are provided with a consistent application of the auditing standards.

Public interest benefits

10. The public interest benefits of this proposal are to:

- a) promote and improve audit quality, the IAASBs Audit Quality Framework, recognises the importance that key interactions with stakeholders has on audit quality – regulators and auditors are identified as being stakeholders within the financial reporting supply chain;
- b) build trust and credibility as “the” audit and assurance standard setter; and
- c) address the following issues:
 - o Performance Gap: either deficient standards or deficient performance.

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- Prescribed reports: do not always meet AUASB standards and diminish audit quality and credibility

Link to Corporate Strategy:

11. Audit quality contributes to stakeholder confidence in the Australian economy including its capital markets and trust in auditing an assurance. Engagement with the regulators meets the following strategic objectives:
 - a) Attain significant levels of key stakeholder engagement through collaboration, partnership and outreach; and
 - b) Develop guidance and education initiatives, or promote development by others, to enhance consistent application of auditing and assurance standards and guidance

Short, medium and long term goals

12. The table below summarises the short, medium and long term goals/outputs of this proposal:

<i>Short Term (current period)</i>	<ul style="list-style-type: none"> • Attendance at ASIC quarterly liaison meetings and ASIC audit committee forum • Early engagement with ASIC on any AUASB submissions (for example ED ISA 315) • Discussions with ASIC on inspection report – more detailed understanding • Identify and scope possible project on one area of concern from ASIC inspection findings. Examples may be: use of experts, use of internal audit • Understanding from firms – use and impact of other regulators • Thought leadership piece - perhaps link to NZ project Guidance for prescribers of assurance requirements
<i>Medium term (2-3 years)</i>	<ul style="list-style-type: none"> • Enquiry into other regulators – contact persons for assurance matters – setting up meetings • Continue to identify and scope possible projects on area of concern from ASIC inspection findings. • Identify and scope possible project on one area of concern from other regulators. Example may be: SMSFs • Develop listing of prescribed reports and working with regulators to re-write prescribed reports where appropriate to be compliant with AUASB standards
<i>Long term (4-5 years)</i>	<ul style="list-style-type: none"> • Regulators to liaise and discuss inspection matters with the AUASB on a real-time file review basis (confidential basis) • Government issues “mandate” on any assurance / audit to come through AUASB – all prescribed reports

V. How / Outreach:

13. The AUASB will need to workshop with the following are groups of stakeholders:
 - a) ASIC/other regulators
 - b) Professional institutes (CAANZ, CPA)
 - c) PAG: Big 4, mid-tier, CAANZ, CPA, Preparer

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14. Aims/outputs of workshops:
 - identify the first thought leadership piece / AUASB assistance piece;
 - identify the first “inspection report” area that we can provide guidance on; and
 - collation of prescribed reports

VI. Outputs from project

15. Refer table in paragraph 12.

VII. Next Steps

16. TBD – aim of AUASB session

VIII. Liaison with other Standard Setters including Collaboration with AASB

17. Build knowledge of what other jurisdictions are doing in terms of standard setters working with regulators: SA, NZ, Canada, UK, and Germany.
18. Determine involvement of AASB.

IX. Education

19. TBD

X. Research

20. The AUASB has currently identified several applicable research papers:
 - a. University of Adelaide – *The Demand for Registered Company Auditor Services in Australia*
 - b. FRC – *Reporting Framework Project*
 - c. *The Effect of National Inspection Regimes on Audit Quality*
 - d. Accounting and Business Research - *Different approaches to corporate reporting regulation: How jurisdictions differ and why*