

## Strategic Project Outline

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Project Title: Coordinating and cooperating effectively with regulators

Team member responsible: Rene Herman

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### 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<sup>#</sup>. 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. Scope

6. 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.
Clean Energy Regulator	Prescribed assurance reports*	To facilitate appropriate prescribed assurance reports that meet user needs and meet AUASB standards.

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

ACNC – dealt with under the reporting frameworks and charities project. ACCC, FIRB, ASX – no direct assurance needs/impacts identified, other government bodies setting auditing and assurance as covered under the reporting framework strategic project.

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<sup>#</sup> Includes other assurance engagements.

\* Assurance reporting is in the scope of this strategic project, the conduct of assurance is covered by the emerging forms of external reporting strategic project.

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### III. Project objectives, public interest benefits and link to corporate strategy:

#### Project Objectives

8. The primary project objectives, to be explored at the roundtable on 13 October 2017, are for the AUASB to :
  - a. respond appropriately to audit and assurance issues identified through inspection reports, in order to identify how the AUASB, as a stakeholder in the financial reporting supply chain, can assist in the improvement of audit quality, by filling gaps/needs in the suite of standards and guidance; and
  - b. understand and bring together what regulators, practitioners and researchers are currently doing that contribute towards the broader agenda of improving audit quality.
9. A secondary project objective, and one that is not expected to be addressed in detail in the panel discussion at the roundtable on 13 October 2017, relates to the AUASB understanding and being appropriately involved in and responding to audit and assurance prescribed reports issued by ASIC, APRA, ATO and CER<sup>#</sup>, 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:
    - Performance Gap: either deficient standards or deficient performance.
    - 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

### IV. Links to relevant documents (only 3 selected), not required reading – background information only:

*ASIC Inspection program report for 2015-16:*

<http://download.asic.gov.au/media/4331127/rep534-published-29-june-2017.pdf>

*ASIC audit quality – the role of others:*

[Audit quality - The role of others | ASIC - Australian Securities and Investments Commission](#)

*ASIC guidance to audit firms when considering how to improve and maintain audit quality:*

[Improving and maintaining audit quality | ASIC - Australian Securities and Investments Commission](#)

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\* Assurance needs and requirements of government agencies is partly dealt with under the reporting frameworks and charities strategic project.

# At a later stage of the project, the scope of government agencies may be expanded as needs arise.