

AUASB Strategic Project Outline

Project Title: Public Sector Audit Issues
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AUASB Sponsor: Julie Crisp

I. Background

1. With the exception of the development of ASAE 3500 *Performance Engagements* the AUASB has not addressed many initiatives that enhance audit and assurance consistency and quality in relation to audits performed on public sector entities.
2. In December 2015 the Australasian Council of Auditors-General (ACAG) sent a letter to the AUASB identifying issues currently impacting public sector audits. This letter was tabled at the June 2016 AUASB meeting however, due to changes in personnel and other priorities, was never acted upon by the AUASB Technical Group. Addressing the issues raised in this communication is long overdue and we have committed to the ACAG Auditing Standards Committee (ASC) that we will address these issues as part of the AUASB's 2017-18 work plan.
3. In June 2017 a letter was tabled with the FRC querying how current aspects of the auditing framework apply to public sector audits (e.g. issues relating to the 'Lack of contestability of public sector auditing'). Whilst the many of the conclusions about audit in the public sector in this paper are not supported by hard evidence the AUASB needs to consider the impact of these issues raised and address any perceptions – right or wrong – which may exist.
4. The AUASB has received anecdotal evidence that certain Auditor-General offices have concerns about applying ASAE 3500 *Performance Engagements* as it has limitations that are not perceived to exist in equivalent INTOSAI standards.

II. Scope

5. Work with ACAG and other public sector auditing representatives and users to
 - a) confirm our understanding of the public sector audit issues raised; and
 - b) identify how the issues raised about public sector audits can be best addressed within the existing Australian assurance framework.

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

Project Objectives

6. For the AUASB to develop and issue new guidance that is specifically targeted to address the needs of public sector auditors.

Public interest benefits

7. The public interest benefits of this proposal are to:
 - a) improve audit quality in the public sector;
 - b) address issues currently raised as concerns by public sector auditors and users of audited financial statements in the public sector ; and
 - c) ensure the needs of public sector auditors are captured and addressed in our feedback on IAASB projects.

Link to Corporate Strategy:

8. This project aligns to the following AUASB strategic objectives:
- a) Develop, issue and maintain high quality Australian auditing and assurance standards that meet the needs of report users. Use IAASB Standards – where they exist, modified as necessary – or develop Australian-specific standards and guidance.
 - b) Actively influence international auditing and assurance standards and guidance by demonstrating thought leadership and enhancing key international relationships.
 - c) Attain significant levels of key stakeholder engagement, through collaboration, partnership and outreach.
 - d) Influence initiatives to develop assurance standards and guidance that meet user needs for external reporting beyond financial reporting.
 - e) Develop guidance and education initiatives, or promote development by others, to enhance consistent application of auditing and assurance standards and guidance.

IV. Proposed Actions and Outcomes

Immediate term

- (a) Address issues raised in the ACAG Public Sector Audit Issues Paper, with a view to producing guidance targeted for public sector auditors in the following areas:
 - (i) Terms of Engagement
 - (ii) Engagement Leader
 - (iii) Going Concern
 - (iv) Group Audits
 - (v) KAM reporting in the Public Sector (specifically implementation issues and scoping/application matters)
 - (vi) Implementation issues associated with ASAE 3500 *Performance Engagements*
- (b) Assess the need to create a specific Public Sector Project Advisory Group, comprised of nominated ACAG ASC members and other public sector audit specialists
- (c) Identify if a specific response is necessary to address public sector audit issues identified in correspondence to the FRC by engaging with relevant parties (both preparers and auditors) in the public sector to establish the credibility of the matters being raised and what is an appropriate responses to the these matters.
- (d) Ensure AUASB input into all IAASB projects includes consideration of the public sector by performing outreach with public sector auditors.
- (e) Identify opportunities to work with and assist public sector auditors in relation to government reporting that requires the use of assurance standards and guidance for external reporting beyond financial reporting.

Medium term

- (f) Consider our involvement in a proposed ANU research project focused on “Do public sector audit reports influence the usefulness of public sector financial statements?”.

V. Stakeholders

- Auditors-General (in particular the ACAG ASC Chair, Maxine Lay)
- ACAG ASC Representatives
- Other Public Sector Auditors
- Treasury agencies and other central agencies overseeing Public Sector financial reporting and accountability