

## Strategic Project Outline

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Project Title:                      Audit Quality – Prescribed Reports  
Team member responsible:      Rene Herman

### 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. 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.
4. 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

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

<i>Regulator</i>	<i>Context</i>	<i>Why</i>
ASIC	Issuer of prescribed reports eg: FS 71 AFSL	To facilitate appropriate prescribed assurance reports that meet user needs and meet AUASB standards.
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.

6. 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.

<sup>\*</sup> 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.

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

#### Project Objectives

7. For the AUASB to understand and be appropriately involved in and responding to audit and assurance prescribed reports\* issued by ASIC, APRA, ATO, CER#, and others as the need arises, so that appropriate levels of assurance, suitable to user needs, are provided with a consistent application of the auditing standards.

#### Public interest benefits

8. 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; and to
  - b) build trust and credibility as “the” audit and assurance standard setter; and to address the issue that prescribed reports: do not always meet AUASB standards and diminish audit quality and credibility.

#### Link to Corporate Strategy:

9. Audit quality contributes to stakeholder confidence in the Australian economy including its capital markets and trust in auditing an assurance. Engagement with issuers of prescribed reports 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. Way forward

10. The AUASB technical group proposes the following short and medium term steps:

#### *Short term:*

- a) On a real time/as need arises, engage with issuers of prescribed reports to introduce the AUASB, explain the role of the AUASB, provide support and input to issuers with reference to assurance needs and prescribed reports.
- b) Consideration of the NZAuASB Draft guidance for prescribers of assurance engagements and whether the AUASB would consider similar such guidance

#### *Medium term:*

- c) AUASB Chair to engage with Treasury as to best course of action for all regulators issuing prescribed reports that reference the AUASB standards, to come through the AUASB for consultation.
11. AUASB technical group outreach activities to date:
    - a) December 2017: Consultation with Gas Markets Reform Group advisors McGrathNicol on their October 2017 *Consultation Paper Draft Financial Reporting Guidelines for Non-Scheme Pipelines*
    - b) October 2017: Consultation with APRA in relation to the Approved Audit Form for Registered Superannuation Entities.

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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.