

UOA



ADELAIDE BUSINESS SCHOOL

DR MAX BESSELL
THE UNIVERSITY OF ADELAIDE
SA 5005
AUSTRALIA
TELEPHONE +61 8 8313 8303
FACSIMILE +61 8 8303 4368
max.bessell@adelaide.edu.au
CRICOS Provider Number 00123M

29th August 2019

The Chair
Professor Roger Simnett
Australian Auditing and Assurance Standards Board
MELBOURNE VIC 3000

Submission to Future Options for Auditing Standards Applicable to Audits of Less complex Entities (LCEs)

I refer to information available on the AUASB seeking submissions in relation to the above topic. Please find attached a submission from a project team (details in the Submission) from the University of Adelaide which we hope provides a useful perspective. While our submission is brief we believe that it provides the basis of a discussion. If you require any further detail or if any of us can be of assistance then please advise us and we are more than happy to oblige.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Max Bessell', with a stylized flourish at the end.

Dr Max Bessell

**SUBMISSION TO
FUTURE OPTIONS FOR AUDITING STANDARDS APPLICABLE TO
AUDITS OF LESS COMPLEX ENTITIES (LCEs)**

**DR MAX BESSELL
DR LISA POWELL
PROFESSOR PAUL CORAM
PROFESSOR CHRISTOPHER SYMES**

ADELAIDE BUSINESS SCHOOL

AUGUST 2019

BACKGROUND

We refer to the request for submissions into the Discussion Paper titled “Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs” developed by the International Auditing and Assurance Standards Board (IAASB).

The Project Team (members above), from the Adelaide Business School, have been researching the demands on the services of Registered Company Auditors (RCA)’s by non-Corporations Act legislation for a number of years. This research has been supported by the Financial Reporting Council (FRC), the Auditing and Assurance Standards Board (AUASB), the Australian Investments and Securities Commission (ASIC), Chartered Accountants Australian and New Zealand (CA ANZ), CPA Australia (CPA) and the Institute of Public Accountants (IPA). See Appendix 1 for more details of the research process and findings.

The findings to date have revealed numerous variations in Australian legislation requiring audit and assurance and the potential overuse of the requirements for RCA’s. These findings are serious as there is a diminishing number of RCAs but increasing demands by the Corporations Act and other non-Corporations Act legislation for their services.

The issues raised in the IAASB Discussion Paper (DP) are not inconsistent with the concerns we are exploring in our research, namely that the current system of audit categories, named auditors and auditing standards are in need of review. This submission aims to provide important input into this timely debate.

SUBMISSION

Our recommendation is that the focus of an audit be shifted from the nature of the entity to the nature of the operations requiring an audit. It seems that the current standards adequately address complex audits such as those required by the Corporations Act. There is a need, however, to investigate the sufficiency of standards for less complex audits and the legislation or authority initiating them.

The auditing of trust accounts provides an excellent example of how a less complex audit may be considered. A focus on trust account sits well with the IAASB theme because they are often not complex (ie they involve the collection and disbursement of money as per instructions) and do not involve the preparation of financial reports. The audit of a trust account primarily requires the auditor to report on the probity of transactions and the year end balances to bank account/s. The number of trustees in the Australian jurisdictions are many and the number of beneficiaries are greater. The operation of a trust account, though, is not the function of the complexity of the entity.

Using trust accounts as an example we have come to the belief that IAASB's focus on LCEs may be inappropriate. It is our view that the current discussion should be about the nature of the operations being audited and the legislation or authority which demands an audit be conducted. The development of auditing standards should, therefore, be consistent with this approach rather than focusing on the complexity of the entity.

Appendix 1 : Summary of research

The project began by identifying and understanding what those demands are across all Australian jurisdictions. The central themes of the issues discovered are:

- Who the auditor is and the description of that person;
- What the auditor is to do; and
- What is to be audited.

To address these concerns the following stakeholders provided a Letter of Support in the research:

- Financial Reporting Council's (FRC)
- Australian Auditing and Assurance Standards Board (AUASB)
- Australian Investments and Securities Commission (ASIC)
- Chartered Accountants Australian and New Zealand (CA ANZ)
- CPA Australia (CPA)
- Institute of Public Accountants (IPA).

The project then moved to first concentrate on legislation in South Australia. A re-examination of legislation was conducted with the view of providing recommendations on amendments which would reduce RCA demands and also address other areas related to audit that were unclear, ambiguous or deficient. This process also raised further issues including:

- What are the qualifications and experience of a non-RCA auditor?
- Should the eligibility of an auditor be defined in the statute or the regulations?
- Should any qualifications and experience required of a non-RCA auditor be specified in the statute or regulations (or assumed as result of membership of a professional accounting body)?
- If accounting bodies are to be referred to (in statute or regulations), should they be specifically named (ie CA ANZ, CPA Australia and IPA) or is it sufficient to refer to them in more generic terms (ie professional accounting body registered in Australia)? Several statutes currently have old nomenclature (ICAA, ASCPA, NIA).
- Is there a need to consider overseas professional accounting qualifications?
- Powers of auditors to access financial records?
- Auditor independence issues?
- Auditor indemnification?

The number and complexity of issues necessarily meant that we needed to take a strategic approach rather than attempt to manage all aspects at once. Consequently we decided to concentrate on legislation which gives rise to trust accounts. In attempting to draft standard legislation which dealt with the auditor and audit of trust accounts it became apparent that Australian auditing standards seemed deficient in respect of them. We believe that this experience provides a useful background in this submission.

Numbers of RCAs and some entities under the *Corporations Act*.

	RCAs		Registered Companies (a)		Public Companies	Listed Companies	
	Number	% change	Number	% change		Number	% change
2004/05	6,163	NA	1.43m	NA	*	*	NA
2005/06	5,848	-5.1	1,48m	3.7	*	1,930	NA
2006/07	5,658	-3.2	1,57m	6.2	*	2,090	8.3
2007/08	5,495	-2.9	1,65m	4.7	*	2,226	6.5
2008/09	5,345	-2.7	1,70m	3.3	*	2,198	-1.3
2009/10	5,270	-1.4	1,77m	4.0	*	2,192	-0.3
2010/11	5,120	-2.8	1,90m	7.1	*	2,247	2.5
2011/12	4,985	-4.4	1,92m	1.5	21,000	2,211	-1.6
2012/13	4,852	-2.7	2,01m	4.7	21,690	2,185	-1.2
2013/14	4,792	-1.2	2,12m	5.3	21,767	2,192	0.3
2014/15	4,596	-4.1	2.25m	6.2	23,792	2,025	9.3
2015/16	4,483	-2.5	2.37m	5.3	23,047	2,076	8.7
2016/17	4,364	-2.7	2.50m	5.5	23,908	2,200	9.6
2017/18	4,226	-3.2	2.60m	4.0	23,872	2,285	3.9

* information not readily available

(a) It is noted that not all companies are audited.

Information sourced from ASIC Annual Reports