

AUASB Bulletin
**Supporting Auditors
in Enhancing Audit
Quality**
December 2022

ISSUED BY
AUDITING AND ASSURANCE STANDARDS BOARD



Australian Government
Auditing and Assurance Standards Board

About the AUASB

The Auditing and Assurance Standards Board (AUASB) is an independent, non-corporate Commonwealth entity of the Australian Government, responsible for developing, issuing and maintaining auditing and assurance standards.

Sound public interest-oriented auditing and assurance standards are necessary to reinforce the credibility of the auditing and assurance processes for those who use financial and other information. The AUASB standards are legally enforceable for audits or reviews of financial reports required under the *Corporations Act 2001*. For more information about the AUASB see the AUASB Website.

Disclaimer

This publication has been authored by the Staff of the Office of Auditing and Assurance Standards Board.

The views expressed in this publication are those of the author(s) and those views may not necessarily coincide with the views of the Auditing and Assurance Standards Board. Any errors or omissions remain the responsibility of the principal authors.

Enquiries

Auditing and Assurance Standards Board
PO Box 204
Collins Street West,
Victoria, 8007
Australia

Tel: +61 3 8080 7400

Email: enquiries@auasb.gov.au

Website: www.auasb.gov.au

Copyright

© Commonwealth of Australia

This work is copyright. Apart from any use as permitted under the *Copyright Act 1968*, no part may be reproduced by any process without prior written permission. Requests and enquiries concerning reproduction and rights should be addressed to the Technical Director, Auditing and Assurance Standards Board, PO Box 204, Collins Street West, Victoria 8007

Introduction and purpose

High quality auditing standards which can be consistently applied are an important foundation supporting audit quality.

ASIC regulates compliance with our auditing standards. The AUASB engages with ASIC and closely monitors the results of ASIC's audit inspections to identify areas where our current auditing standards could more effectively contribute to enhanced audit quality, or where guidance is required to assist with consistent interpretation and application.

Following the release of ASIC's [Audit Inspection Report](#) last year the AUASB issued its inaugural version of this publication, [Supporting Auditors in Enhancing Audit Quality December 2021](#), to communicate the actions undertaken by the AUASB to assist auditors to enhance audit quality, including those in response to the matters identified in ASIC's audit inspection findings. In June 2022, the AUASB issued [Auditor's considerations in times of changing and uncertain economic conditions](#) to complement [ASIC's areas of focus for 30 June 2022 reporting](#).

The purpose of this AUASB bulletin is to provide an update in response to the recently issued [Audit Inspection Report 30 June 2022](#) and [ASIC's Focus Areas for 31 December 2022](#). Through our work with ASIC and review of the findings of the latest inspection report, we are not intending to make any amendments to the Auditing Standards at this time. This Bulletin refers to previously issued standards and guidance which are still relevant, as well as revised standards which become effective for the December 2022 reporting period and recently issued guidance.

The purpose of this AUASB Bulletin is to provide an update in response to the recently issued [ASIC Inspection Report 30 June 2022](#) and [ASIC's Focus Areas for 31 December 2022](#).

ASIC's Inspection Report 30 June 2022

The audit areas with the largest number of negative audit inspection findings continues to be:

- Revenue and receivables; and
- Asset values and impairment of non-financial assets.

Revenue and receivables

ASIC's [Audit Inspection Report 30 June 2022](#) details factors that contributed to the negative findings. In summary, common factors contributing to many of the findings were due to inadequate / inappropriate risk assessment and testing methods such as:

- Test of details and sampling;
- Inappropriate reliance on internal controls;
- Not testing relevance and reliability of data and assumptions used in expected credit loss models, effective interest calculations or assets valued at fair value; and
- Not testing data used in substantive analytical procedures.

Whilst there is no specific auditing standard directed at revenue and receivables these findings are addressed across a range of general auditing standards, particularly ASA 315¹, ASA 500², ASA 520³, ASA 530⁴, and ASA 540⁵.

[Supporting Auditors in Enhancing Audit Quality December 2021](#) includes details of guidance to assist in auditing revenue. Also, the AUASB have issued AUASB bulletins on [Integrity of Data Obtained for the Purpose of an Audit of a Financial Report](#) and [Evaluating the Reliability of Data Obtained for Use in Audit Technology Tools](#) which provide guidance on the procedures auditors should undertake to ensure the data used to audit revenue and receivables is appropriate.

Auditors are also reminded that a revised version of ASA 315 is now effective (for reporting periods commencing on or after 15 December 2021) and will assist in the performance of a robust risk assessment and identification of relevant assertion for revenue. Implementation guidance to support auditors in applying the new requirements in ASA 315 is available on the [AUASB website](#).

Asset values and Impairment of non-financial assets

Consistent with prior years, the 2022 ASIC audit inspection findings were mainly due to inadequate testing and challenging of forecast cash flows and other key assumptions. In addition, this year ASIC identified many instances of inadequate procedures over expense capitalisation.

Our inaugural version of this publication [Supporting Auditors in Enhancing Audit Quality December 2021](#) includes details of guidance available on the [AUASB's website](#) to assist auditors in complying with ASA 540, which is the main auditing standard that applies to auditing accounting estimates. The AUASB's guidance materials include illustrative examples of simple and complex accounting estimates and expected credit loss accounting estimates.

Other findings

Testing relevance and reliability of data, methodologies, and assumptions

Not testing the relevance and reliability of data, methodologies and reasonableness of assumptions contributed to findings for accounting estimates, financial instruments and investments, provisions, and expenses and payables. Again our previously published AUASB bulletins on [Integrity of Data Obtained for the Purpose of an Audit of a Financial Report](#) and [Evaluating the Reliability of Data Obtained for Use in Audit Technology Tools](#) include guidance which may be helpful. Also refer to IAASB publication [Addressing Risk of Overreliance on Technology Arising from the Use of Automated Tools and Techniques from Information Produced by an Entity's Systems](#) which provides guidance on how to address automation bias.

Using the work of experts and other auditors

Several of ASIC's 2022 inspection findings related to using the work of experts and other auditors and included instances where the auditor did not use their own experts where necessary or where the auditor's evaluation of the work performed by management's experts and the auditor's expert was insufficient. It is important that auditors perform their evaluation of the work conducted by experts with professional scepticism.

¹ ASA 315 *Identifying and Assessing the Risks of Material Misstatement*

² ASA 500 *Audit Evidence*

³ ASA 520 *Analytical Procedures*

⁴ ASA 530 *Audit Sampling*

⁵ ASA 540 *Auditing Accounting Estimates and Related Disclosures*

The three main references auditors should consider when addressing this issue are:

- ASA 220⁶, which requires the engagement partner to determine whether the engagement team has the appropriate competence and capabilities to perform the engagement and whether they should use internal or external experts;
- ASA 620⁷, which is relevant when auditors are using the work of an expert in a field other than accounting or auditing, to assist them in obtaining sufficient appropriate audit evidence. An auditor's expert may be either an auditor's internal expert, or an auditor's external expert; and
- GS 005⁸, which provides relevant guidance when evaluating the work of a management's expert.

The inspection findings also noted some instances where the auditor did not sufficiently review and evaluate the work of component auditors to ensure appropriate substantive procedures were performed to respond to the assessed risk. ASA 600⁹ has recently been revised and includes additional guidance on the group auditor's review of component auditor audit documentation throughout the audit.

Focus areas for 31 December 2022

Preparers and auditors of financial reports are facing another challenging reporting period arising from the impact of topical and emerging risks and changing and uncertain economic conditions. [ASIC's Focus Areas for 31 December 2022](#) have highlighted several important focus areas for auditors, in particular:

- Asset values
- Provisions
- Solvency and going concern assessments
- Subsequent events
- Disclosures in the financial report and the Operating and Financial Review (OFR).

Our AUASB Bulletin [Auditor's considerations in times of changing and uncertain economic conditions](#), which was issued in June 2022, included guidance on these matters, and reminded auditors of the following publications which are still relevant:

- [Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB / IASB Practice Statement 2](#), which provides an overview for preparers and auditors, and the consideration of materiality¹⁰ when assessing the impact on the financial report.
- [The Consideration of Cyber Security Risks in an Audit of a Financial Report](#) is an AUASB Bulletin that assists auditors in considering the direct and indirect impact of cyber security on the audit. Depending on the facts and circumstances of an entity, cyber security may contribute to the susceptibility to misstatement of certain amounts and disclosures in an entity's financial report.

⁶ ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information*

⁷ ASA 620 *Using the Work of an Auditor's Expert*

⁸ GS 005 *Evaluating the Appropriateness of a Management's Expert's Work*

⁹ ASA 600 *Audits of Group Financial Statements (Including the Work of Component Auditors)* effective for reporting periods commencing on or after 15 December 2023

¹⁰ [AASB/IASB Practice Statement 2 Making Materiality Judgements \(APS/PS 2\)](#).

Disclosures in the operating and financial review

ASIC's focus areas for 31 December 2022 include an increased focus on the auditor's responsibilities in relation to the OFR. Also, ASIC included in some individual firm Audit Inspection Reports instances where as a result of ASIC's review of financial reports audited by the firm, there was an adjustment to the OFR due to inadequate disclosure of material business risks.

Whilst the OFR is not subject to audit the auditor does have responsibilities under ASA 720¹¹ to read and consider if the OFR is materially inconsistent with the financial report or the auditor's knowledge of the entity. If the auditor identifies a material inconsistency in the OFR they consider the implications for the auditor's report, as well as their obligations to report a suspected contravention of the *Corporations Act 2001* to ASIC.

Quality Management Standards

The new and revised Quality Management Standards¹² are designed to enhance audit quality. Our AUASB Bulletin [Quality Management Standards – Enhancing Audit Quality](#) highlights how the new standards assist in enhancing audit quality. An example of this is a new requirement for firms to investigate the root cause of deficiencies identified by their monitoring activities. The following will assist auditors in ensuring their process of investigating and responding to the root cause of any deficiencies is robust and has the desired effect to reduce the occurrence of findings in the future:

- [Root cause analysis: Audit firm thematic review](#) following ASIC's review of root cause analysis conducted by the largest six audit firms; and
- [Improving Audit Quality Using Root Cause Analysis](#) developed by Chartered Accountants Australia and New Zealand on behalf of the Australian Auditing and Accounting Public Policy Committee.

A dedicated [Quality Management Standards page](#) on the AUASB's website contains an array of implementation support for auditors that assist them to apply the new Quality Management Standards.

Future initiatives

The AUASB will continue to engage with ASIC and other regulators, standard setters, auditors and other stakeholders to identify further initiatives which may assist practitioners. If you have any comments on this topic or would like to raise an area for further consideration by the AUASB, please contact us at enquiries@auasb.gov.au.

¹¹ ASA 720 *The Auditor's Responsibilities Relation to Other Information*

¹² ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements*, ASQM 2 *Engagement Quality Reviews and ASA 220 Quality Management for an Audit of a Financial Report and Other Historical Financial Information*, ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information*. The QMS are required to be designed and implemented by 15 December 2022.