December 2013

**Explanatory Statement**

**Australian National Audit Office Auditing Standards**

Issued by the **Auditor-General**

**Explanatory Statement**

**Mandate of the Auditor-General**

The office of Auditor-General for the Commonwealth is established by the *Auditor-General Act 1997* (the Act). The Act sets out the functions and powers of the Auditor-General. Functions and powers may also be conferred on the Auditor-General by other legislation.

Schedule 1 to the Act deals with administrative matters relating to the office of Auditor-General, such as the Auditor-General’s appointment, conditions, resignation and removal.

The Act also establishes the Australian National Audit Office (ANAO), which consists of the Auditor-General and staff appointed under the *Public Service Act 1999*. The function of the ANAO is to assist the Auditor-General in performing Auditor-General functions. The Auditor-General may also engage people under contract to assist in the performance of an Auditor-General function.

**Reasons for Setting ANAO Auditing Standards**

The Auditor-General sets the ANAO Auditing Standards to meet the requirement of section 24 of the Act, which is located in Division 5 of Part 4 of the Act.

Section 24 provides as follows:

‘The Auditor-General must, by notice in the Gazette, set auditing standards that are to be complied with by persons performing any of the following functions:

(a) an audit or review referred to in Division 1, 2 or 2A;

(b) an audit under Division 2 of Part 7;

(c) an audit under section 56 of the *Financial Management and Accountability Act 1997*.’

These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

The functions referred to in paragraph (a) of section 24 are:

* from Division 1 of Part 4 of the Act, financial statements audits of
  + Agencies in accordance with the *Financial Management and Accountability Act 1997* (section 11 of the Act);
  + Commonwealth authorities and their subsidiaries in accordance with the *Commonwealth Authorities and Companies Act 1997* (section 12 of the Act);
  + Commonwealth companies and their subsidiaries in accordance with the *Commonwealth Authorities and Companies Act 1997* (section 13 of the Act);
* from Division 2 of Part 4 of the Act,
  + performance audits of Agencies, Commonwealth authorities and their subsidiaries, and Commonwealth companies and their subsidiaries, in accordance with sections 15 to 18 of the Act;
  + audits of the appropriateness of the performance indicators of, and the reporting against those performance indicators by, agencies, Commonwealth authorities and their subsidiaries, and Commonwealth companies and their subsidiaries, in accordance with section 18A of the Act;
  + performance audits of Commonwealth partners, in accordance with section 18B of the Act; and
* from Division 2A of Part 4 of the Act, assurance reviews of agencies, Commonwealth authorities and their subsidiaries, and Commonwealth companies and their subsidiaries, in accordance with section 19A of the Act.

The functions referred to in paragraph (b) of section 24 are audits by the Independent Auditor of the ANAO’s annual financial statements under section 44 of the Act and any performance audits undertaken under section 45 of the Act.

The function referred to in paragraph (c) of section 24 is the audit required by section 56 of the *Financial Management and Accountability Act 1997* of the Finance Minister’s annual financial statements. These financial statements are the annual consolidated financial statements of the Australian Government.

The persons performing the functions mentioned in section 24 of the Act will include the Auditor-General, the staff of the Australian National Audit Office, contractors appointed or engaged to assist in the performance of an Auditor-General function, and the ANAO’s Independent Auditor.

**Process of making the ANAO Auditing Standards**

It is the intention of the Auditor-General that audits conducted by the ANAO should be conducted to the same standards required of the auditing profession in Australia, to the extent that they are not inconsistent with any provision of the Auditor-General Act or other relevant legislation.

The ANAO Auditing Standards therefore incorporate:

* by reference, the standards made by the Australian Auditing and Assurance Standards Board (AUASB) pursuant to section 227B(1)(a) of the *Australian Securities and Investments Commission Act 2001* (the ASIC Act) and section 336 of the *Corporations Act 2001* (the Corporations Act) that are current from time to time;
* by listing, standards formulated by the AUASB pursuant to section 227B(1)(b) of the ASIC Act; and
* by listing, standards issued by the former Australian Accounting Research Foundation (AARF) up to 30 June 2004, on behalf of CPA Australia and The Institute of Chartered Accountants in Australia which remain operative.

AUASB standards formulated under section 227B(1)(b) of the ASIC Act and standards made by the former AARF which remain operative do not have the same legal status as the ANAO Auditing Standards or the AUASB standards made under section 336 of the Corporations Act.

A reference to an AUASB standard formulated under section 227B(1)(b) of the ASIC Act or to a standard made by the former AARF in the ANAO Auditing Standards can only refer to the Standard that existed when the ANAO Auditing Standards were issued. It cannot refer to any revised version that may exist at a later reporting date.

References in the ANAO Auditing Standards to an AUASB standard made under section 336 of the Corporations Act are ambulatory (automatically moving forward to refer to the most recently-issued version of the section 336 Standard).

*AUASB standards*

The primary functions of the AUASB under section 227B of the ASIC Act include:

* to make auditing standards (under section 336 of the Corporations Act) for the purposes of the corporations legislation; and
* to formulate auditing and assurance standards for other purposes.

Further information and explanation of the nature of AUASB standards can be found in the *Foreword to AUASB Pronouncements* by the AUASB. The AUASB has also issued ASA 100 *Preamble to AUASB Standards* and ASA 101 *Preamble to Australian Auditing Standards*, which set out the AUASB’s intentions on how the AUASB Standards are to be understood, interpreted and applied. The AUASB standards contain both mandatory requirements, consisting of principles and essential procedures, and application and other explanatory material, which assists auditors in the application of the mandatory requirements. The AUASB also issues Guidance Statements to assist auditors to fulfil the objectives of audits or assurance engagements. Guidance Statements do not, however, prescribe or create mandatory requirements.

*Standards issued by the AARF*

The establishment of the AUASB was the result of the *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* (CLERP 9), which came into effect on 1 July 2004. CLERP 9 reconstituted the former Auditing and Assurance Standards Board (AuASB) of the AARF[[1]](#footnote-1) as a statutory body under the oversight of the Financial Reporting Council.

A number of the standards (and various guidance statements) made by the AuASB survive its replacement by the AUASB, and have become the responsibility of the AUASB.

**Purpose of ANAO Auditing Standards**

The purpose of the ANAO Auditing Standards is to establish mandatory requirements and provide explanatory guidance for persons performing the functions specified in section 24 of the *Auditor-General Act 1997*.

AUASB Auditing Standard ASA 100 *Preamble to AUASB Standards* and ASA 101 *Preamble to Australian Auditing Standards* set out the intentions of the AUASB on how the AUASB Standards are to be understood, interpreted and applied. However, in the event of an inconsistency between a provision in an ANAO Auditing Standard and a provision in the *Auditor-General Act 1997* or other relevant legislation, the provision in the legislation prevails.

**Operative Date**

These ANAO Auditing Standards replace the ANAO Auditing Standards which were made on 30 November 2012 and registered on the Federal Register of Legislative Instruments on 4 December 2012.

The standards apply in accordance with the operative dates given or indicated in each individual standard.

**Main changes from the ANAO Auditing Standards made on 30 November 2012**

The main changes from the ANAO Auditing Standards made in November 2012 are:

* to identify the standards that are to apply to the conduct of assurance reviews, undertaken pursuant to Division 2A of Part 4 of the Act, which are designated by the Auditor-General as Limited Scope Assurance Reviews;
* to reference the *Fundamental Principles of Financial Auditing* (ISSAI 200) and the *Fundamental Principles of Performance Auditing* (ISSAI 300) of the International Standards of Supreme Audit Institutions;
* to include three standards issued by the AUASB since November 2012; and
* to remove reference to AUS 804 *The Audit of Prospective Financial Information*.

*Limited Scope Assurance Reviews*

An assurance review involves the examination of one or more aspects of an entity’s activities to provide a level of assurance that is less than the reasonable assurance provided by a financial statement or performance audit. The AUASB standards include standards which allow for the provision of limited assurance and these are the standards which apply to ANAO assurance reviews, with the exception of reviews designated by the Auditor-General as Limited Scope Assurance Reviews.

Assurance reviews may be designated by the Auditor-General as Limited Scope Assurance Reviews in response to requests from stakeholders, including Parliamentary Committees, Parliamentarians or community groups.

Given the nature of Limited Scope Assurance Reviews, the standard to be complied with are the requirements for Planning and Performing the Assurance Engagement, Obtaining Evidence and Documentation in ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. The reporting arrangements for these Reviews, including arrangements for reporting to the Parliament, will be determined by the Auditor-General.

*International Standards of Supreme Audit Institutions*

The ANAO is a member of the International Organisation of Supreme Audit Institutions (INTOSAI), which is the umbrella body for the external government audit community.

INTOSAI endorses the International Standards of Supreme Audit Institutions (ISSAIs) which are professional standards and guidelines for public sector auditors. Within the ISSAIs framework, ISSAI 200 *Fundamental Principles of Financial Auditing* and ISSAI300 *Fundamental Principles of Performance Auditing* outline principles for conducting financial statement and performance audits respectively in the public sector. The ANAO Auditing Standards relating to the conduct of these audits are consistent with ISSAI 200and ISSAI 300.

*Standards issued by the AUASB since November 2012*

As noted above, a reference in the ANAO Auditing Standards to an AUASB standard formulated under section 227B(1)(b) of the ASIC Act refers to the AUASB standard that existed at the time that the ANAO Auditing Standards were issued. It cannot refer to any revised version that may exist at a later date.

These ANAO Auditing Standards list three standards which have been issued by the AUASB pursuant to section 227B(1)(b) of the ASIC Act since the ANAO Auditing Standards were last made in November 2012. These standards are:

* ASRE 2400 *Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity* (issued March 2013);
* ASAE 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Historical Financial Information included in a Prospectus or other Document* (issued November 2012); and
* ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information* (issued November 2012).

*Withdrawal of AUS 804 The Audit of Prospective Financial Information*

On 2 December 2013, the AUASB approved the withdrawal in January 2014 of AUS 804 *The Audit of Prospective Financial Information.* This standard has been superseded by ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information.*

**Consultation prior to re-issuing the ANAO Auditing Standards**

There has been no consultation prior to re-issuing the ANAO Auditing Standards. Persons to whom the Standards apply will be employees of or subject to the direction of the ANAO, contractors to the ANAO and the ANAO’s Independent Auditor, most of whom will be familiar with AUASB Standards through membership of a professional accounting body.

The standards applicable to the conduct of Limited Scope Assurance Reviews formalise existing practices and link them more directly to aspects of the relevant auditing standard.

The due process for the issue of AUASB Standards is set out in the *Foreword to AUASB Pronouncements* issued by the AUASB. That due process includes the issue of exposure drafts of proposed standards for public comment.

**Statement of Compatibility with Human Rights**

A Statement of Compatibility with Human Rights is attached.

**Statement of Compatibility with Human Rights**

*Prepared in accordance with the Human Rights (Parliamentary Scrutiny) Act 2011, Part 3*

**Australian National Audit Office Auditing Standards**

This Legislative Instrument is compatible with the human rights and freedoms recognised or declared in the international instruments listed in Part 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*.

**Overview of the Legislative Instrument**

The Auditor-General, through this legislative instrument, sets the ANAO Auditing Standards to meet the requirement of section 24 of the *Auditor-General Act 1997.* Section 24 provides as follows:

‘The Auditor-General must, by notice in the Gazette, set auditing standards that are to be complied with by persons performing any of the following functions:

1. an audit or review referred to in Division 1, 2 or 2A;
2. an audit under Division 2 of Part 7;
3. an audit under section 56 of the *Financial Management and Accountability Act 1997*.’

The powers exercisable in the performance of these functions are set out in the *Auditor-General Act 1997.*

**Human rights implications**

This Legislative Instrument does not engage any of the applicable rights or freedoms.

**Conclusion**

This Legislative Instrument does not limit any human rights, nor establish any new offences or penalties.

**Ian McPhee**

**Auditor-General**

1. The former AuASB was a board of the Australian Accounting Research Foundation, which was jointly controlled and funded by The Institute of Chartered Accountants in Australia and CPA Australia. [↑](#footnote-ref-1)