

July 2014

Explanatory Statement

Australian National Audit Office Auditing Standards

Issued by the **Auditor-General**

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Explanatory Statement

Mandate of the Auditor-General

1. 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.
2. 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.
3. 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

4. The Auditor-General sets the ANAO Auditing Standards to meet the requirement of section 24 of the Act.
5. Section 24 of the Act 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, 1A, 2 or 2A;
 - (b) an audit under Division 2 of Part 7;
 - (c) an audit under section 49 of the *Public Governance, Performance and Accountability Act 2013*.’
6. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

7. The functions referred to in sub-section 24(a) are:

- from Division 1 of Part 4 of the Act, annual financial statements audits of
 - Commonwealth entities and their subsidiaries in accordance with the *Public Governance, Performance and Accountability Act 2013* (section 11 of the Act);
 - Commonwealth companies and their subsidiaries in accordance with the *Public Governance, Performance and Accountability Act 2013* (section 11 of the Act);
 - Annual consolidated financial statements in accordance with the *Public Governance, Performance and Accountability Act 2013* (section 12 of the Act);
- from Division 1A of Part 4 of the Act, annual performance statement audits of Commonwealth entities in accordance with the *Public Governance, Performance and Accountability Act 2013* (section 15 of the Act);
- from Division 2 of Part 4 of the Act
 - performance audits of Commonwealth entities and their subsidiaries and Commonwealth companies and their subsidiaries.
 - audits of the appropriateness of the performance measures of, and the reporting against those performance measures by, Commonwealth entities and their subsidiaries and Commonwealth companies and their subsidiaries (section 18A of the Act);
 - performance audits of Commonwealth partners (section 18B of the Act);
- from Division 2A of Part 4 of the Act, assurance reviews of Commonwealth entities and their subsidiaries and Commonwealth companies and their subsidiaries (section 19A of the Act).

8. The functions referred to in sub-section 24(b) of the Act 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.

9. The function referred to in sub-section 24(c) is the audit of the annual consolidated financial statements of the Australian Government as required by section 49 of the *Public Governance, Performance and Accountability Act 2013*.

10. 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 engaged to assist in the performance of an Auditor-General function under section 27 of the Act, and the ANAO's Independent Auditor.

Process of making the ANAO Auditing Standards

11. 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 the provisions of the Auditor-General Act or other relevant legislation.

12. The ANAO Auditing Standards, therefore incorporate:

- by reference, the standards made by the Australian Auditing and Assurance Standards Board (AUASB) pursuant to sub-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 sub-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.

13. AUASB standards formulated under sub-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.

14. A reference to an AUASB standard formulated under subsection 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.

15. 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

16. 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.

17. 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.

18. 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.

Standards issued by the AARF

19. 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 AARF¹ as a statutory body under the oversight of the Financial Reporting Council.

20. 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.

Operative Date

21. These ANAO Auditing Standards replace the ANAO Auditing Standards which were made on 19 December 2013 and registered on the Federal Register of Legislative Instruments on 3 January 2014.

22. 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 19 December 2013

23. The main changes from the ANAO Auditing Standards made in December 2013 are to:

- reflect changes as a consequence of the enactment of the *Public Governance, Performance and Accountability Act 2013* (the PGPA Act);
- include one new standard issued by the AUASB and four standards that were reissued on 24 June 2014.

The Public Governance, Performance and Accountability Act 2013

24. The PGPA Act substantially replaces the *Financial Management and Accountability Act 1997* (the FMA Act) and the *Commonwealth Authorities and Companies Act 1997* (the CAC Act) from 1 July 2014.

25. The Act has been amended to provide the authority for the Auditor-General to audit annual performance statements of

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.

Commonwealth entities prepared in accordance with the PGPA Act. The Act has also been amended to reflect the terminology and references in the PGPA Act.

Amendments to the Standards by the AUASB since December 2013

26. As noted above, a reference in the ANAO Auditing Standards to an AUASB standards with pursuant to sub-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.

27. These ANAO Auditing Standards list one standard which has been issued and four standards that has been reissued by the AUASB pursuant to sub-section 227B(1)(b) of the ASIC Act since the ANAO Auditing Standards were last made in December 2013. These standards are:

Issued Standard

ASAE 3610 / *Assurance Engagement on General Purpose Water*
AWAS 2 *Accounting Reports* (issued February 2014)

Reissued Standards

ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (issued June 2014)

ASAE 3402 *Assurance Reports on Controls at a Service Organisation* (issued June 2014)

ASAE 3410 *Assurance Engagements on Greenhouse Gas Statements* (issued June 2014)

ASAE 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Historical Financial Information included in a Prospectus or other Document* (issued June 2014)

28. The ANAO Auditing Standards also lists the standard on Related Services ASRS 4450 *Comfort Letter Engagements* which was issued in May 2012 with effect from 1 July 2013.

Consultation prior to re-issuing the ANAO Auditing Standards

29. 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.

30. 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

31. A Statement of Compatibility with Human Rights is attached as Attachment A.

Attachment A

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:

- (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 49 of the *Public Governance, Performance and Accountability Act 2013*.’

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