

Explanatory Statement:

Australian National Audit Office Auditing Standards 2018

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February 2018

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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.
- 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.

Purpose of ANAO Auditing Standards

- The Auditor-General sets the ANAO Auditing Standards to meet the requirement of section 24 of the Act.
- Section 24 of the Act provides:

‘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*.’
- These Auditing Standards are legislative instruments under the *Legislation Act 2003*.
- The functions referred to in subsection 24(a) of the Act 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* (PGPA Act) (section 11 of the Act);

- Commonwealth companies and their subsidiaries in accordance with the PGPA Act (section 11 of the Act); and
 - Annual consolidated financial statements in accordance with the PGPA Act (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 PGPA Act (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 (subsection 17(1) of the Act);
 - 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 (subsection 18A(1) of the Act);
 - performance audits of Commonwealth partners (subsection 18B(1) of the Act); and
- from Division 2A of Part 4 of the Act, assurance reviews of Commonwealth entities and their subsidiaries and Commonwealth companies and their subsidiaries (subsection 19A(1) of the Act).
- The functions referred to in subsection 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.
- The function referred to in subsection 24(c) is the audit of the annual consolidated financial statements of the Australian Government as required by section 49 of the PGPA Act.
- 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.

AUASB standards

- The primary functions of the AUASB under section 227B of the *Australian Securities and Investments Commission Act 2001* (ASIC Act) include:
 - to make auditing standards (under section 336 of the *Corporations Act 2001* (Corporations Act) for the purposes of the corporations legislation;
 - to formulate auditing and assurance standards for other purposes; and
 - to formulate guidance on auditing and assurance matters (that do not prescribe or create mandatory requirements).
- Further information and explanation of the nature of AUASB standards can be found in the *Foreword to AUASB Pronouncements* issued 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.

Development and application of 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 and consistent with the international public sector auditing community, to the extent that they are not inconsistent with the provisions of the Auditor-General Act or other relevant legislation.
- The ANAO Auditing Standards, therefore incorporate:
 - all standards issued by the Australian Auditing and Assurance Standards Board (AUASB) pursuant to paragraph 227B(1)(a) of the ASIC Act and section 336 of the Corporations Act;
 - relevant standards formulated by the AUASB pursuant to paragraph 227B(1)(b) of the ASIC Act; and
 - relevant auditing and assurance standards issued by standard-setting bodies other than the AUASB as appropriate.
- AUASB standards formulated under paragraph 227B(1)(b) of the ASIC Act and auditing and assurance standards issued by standard-setting bodies other than the AUASB do not have legal effect under the Corporations Act. Hence they do not have the same legal status as the ANAO Auditing Standards or the AUASB standards made under section 336

of the Corporations Act, (which are given legal effect by the Corporations Act).

- In the event of an inconsistency between a provision in an ANAO Auditing Standard and a provision in the Act or other relevant legislation, the provision in the legislation prevails.

Commencement

- The ANAO Auditing Standards commence on registration on the Federal Register of Legislation.
- The standards replace the ANAO Auditing Standards which were made on 9 March 2017 and registered on the Federal Register of Legislation on 15 March 2017. The standards apply in accordance with the operative dates given or indicated in each individual standard.

Main changes to the ANAO Auditing Standards made in March 2017

- The main changes from the ANAO Auditing Standards made in March 2017 are:
 - omission of seven standards that are not currently applied by the ANAO in performing Auditor-General functions;
 - inclusion of three standards reissued by the AUASB; and
 - inclusion of part of a standard reissued by the AUASB (supplemented with relevant requirements from the International Standards of Supreme Audit Institutions).

Amendments to the standards made by the AUASB since March 2017

- The following standards (all of which have been incorporated in the ANAO Auditing Standards) have been reissued by the AUASB pursuant to paragraph 227B(1)(b) of the ASIC Act since the ANAO Auditing Standards were last made in March 2017:

ASA 805	<i>Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement</i>
ASRE 2400	<i>Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity</i>

ASAE 3000	<i>Assurance Engagements Other than Audits or Reviews of Historical Financial Information</i>
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- The following standard, (part of which has been incorporated in the ANAO Auditing Standards), was reissued by the AUASB on 5 October 2017 pursuant to paragraph 227B(1)(b) of the ASIC Act.

ASAE 3500	<i>Performance Engagements</i>
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- The ANAO Auditing Standards incorporate the reissued ASAE 3500, except for the following requirements paragraphs:
 - Paragraph 33 relating to obtaining an understanding of internal controls relevant to the evaluation of the activity's performance against the identified criteria;
 - Paragraph 34 relating to procedures relating to non-compliance with laws and regulations; and
 - Paragraph 45 relating to the assurance report content.
- Paragraphs 33 and 34 were omitted because they contain requirements for all audits that are not consistent with the performance auditing approach of Supreme Audit Institutions. Inclusion of these requirements would extend the scope of all audits to include consideration of internal controls relevant to the subject matter of the audit as well as non-compliance with laws and regulations irrespective of whether these procedures are required, within the scope of the audit, to achieve the objective of the audit. Where not required in the scope of the audit these additional procedures would not add value to the audit process nor result in information that would be considered of value to users of the reports.
- The requirements of paragraph 45 include a checklist of minimum content requirements, some of which are not currently included in performance audit reports. Examples are certain statements around the responsibilities of the responsible party (audited entity), auditor's responsibility and compliance with independence and ethical requirements. While these could easily be appended to the performance audit report, they are less relevant to users than matters not required as minimum content, such as findings, recommendations and data sources.
- In place of paragraph 45 of ASAE 3500, the ANAO Auditing Standards have incorporated the reporting requirements specified by the International Standard of Supreme Audit Institutions ISSAI 3000 *Standard*

for Performance Auditing (ISSAI 3000). These reporting requirements are consistent with the current practice of the ANAO in reporting conclusions, findings and recommendations in performance audit reports. Specifically, the reporting requirements of ISSAI 3000 allow for the audit conclusion to include and be presented together with other information that highlights both positive and negative aspects of performance. This is consistent with the ANAO's purpose of improving public sector performance and supporting accountability and transparency in the Australian Government sector through independent reporting to the Parliament, the Executive and the public.

Consultation prior to re-issuing the ANAO Auditing Standards

- There has been no consultation prior to re-issuing the ANAO Auditing Standards because the instrument is of a machinery nature. Persons likely to be affected by the Standards will be the ANAO's Independent Auditor as well as employees of the ANAO, contractors to the ANAO and others subject to ANAO direction. These persons will be familiar with AUASB Standards through membership of a professional accounting body or through ANAO internal training programs.
- Public consultation for the instrument was unnecessary because appropriate consultation has already been undertaken through the AUASB. 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.
- Public consultation in respect of the application of ASAE 3500 in the instrument was unnecessary because the omissions from ASAE 3500 and insertions from ISSAI 3000 were made to ensure that the ANAO continues to produce performance audit reports in their current form. Therefore there are no impacts on ANAO performance audit reports and, accordingly, no persons impacted by these changes.
- The Auditor-General has advised the Joint Committee of Public Accounts and Audit of the approach taken in respect of the implementation of ASAE 3500.

Statement of Compatibility with Human Rights

- 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 2018

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*.

The purpose of these ANAO Auditing Standards is to replace the pre-existing standards and to conform to the equivalent revised AUASB and other relevant standards.

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

Human rights implications

The Australian National Audit Office Auditing Standards 2018 do not diminish or limit any of the applicable human rights or freedoms, and thus do not raise any human rights issues.

Conclusion

This Legislative Instrument is compatible with human rights as it does not raise any human rights issues due to the nature and content of the Instrument.

Grant Hehir
Auditor-General

Note: The name of this instrument was amended on registration as the instrument as lodged did not have a unique name (see subsection 10(2), *Legislation Rule 2016*).