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AUASB Bulletin

Supporting Auditors in Enhancing Audit Quality

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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 prepared 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 do not necessarily coincide with the views of the Auditing and Assurance Standards Board. Any errors or omissions remain the responsibility of the principal authors.

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Introduction and purpose

The AUASB's mission is to develop, issue and maintain in the public interest, best practice Australian auditing standards and guidance that meet user needs and enhance audit consistency and quality. High quality auditing standards which can be consistently applied are an important foundation supporting audit quality.

The AUASB has a robust [Due Process for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications](#) which is designed to ensure that our standards are of high quality, clearly stated and concise, and meet the needs of stakeholders.

The AUASB continually and proactively engages with auditors and ASIC to identify issues to be addressed or areas where there is inconsistent interpretation and / or adoption of our auditing standards in practice. This has resulted in the issuing of revised auditing standards, guidance statements, and other supporting material, to assist auditors with practical implementation. The purpose of this AUASB Bulletin is to communicate the actions taken by the AUASB to assist auditors to enhance audit quality, including those in response to matters identified during recent ASIC audit inspections.

ASIC's Audit Inspections

ASIC regulates compliance with our auditing standards. The AUASB closely monitors the published 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. The International Auditing and Assurance Standards Board (IAASB) also continues to focus on enhancing international auditing standards in the public interest and takes into account international regulators' inspection findings and feedback as key considerations.

As detailed in ASIC's Audit Inspection Report¹ ASIC's audit inspections focus on a limited number of the more complex and challenging audits and higher risk key areas of audits. Purely random selections of audit files could produce higher or lower levels of negative findings.

A negative finding is where ASIC concludes the auditor did not obtain reasonable assurance that the financial report as a whole was free of material misstatement. This does not necessarily mean that the financial report was materially misstated. Rather, in ASIC's view the auditor did not have a sufficient basis to support their opinion on the financial report.

A negative finding can result from clear non-compliance with a requirement of the auditing standards. In addition, as audits involve the application of professional judgement, a negative finding can result from a difference in professional judgements exercised by the auditor when compared to the judgement exercised by the ASIC inspection team. As detailed in ASIC's Audit Inspection Report where there are instances where ASIC considered that individuals could reach different judgements ASIC do not raise a negative finding. Also, as detailed in ASIC's Audit Inspection Report the firms do not necessarily agree with all the findings, including when ASIC concludes that the auditor could not have reasonably reached different judgements.

¹ Refer [Audit Inspection Report 1 July 2020 to 30 June 2021](#)

To assist auditors in applying the standards, the AUASB has in recent years issued a number of revised standards, guidance statements and other guidance materials to clarify and to drive improved compliance with the requirements in the auditing standards.

Providing clarification of the minimum requirements in the auditing standards and additional guidance can also assist auditors in applying their professional judgement when conducting audit engagements. However, differences in professional judgement cannot be eliminated. The continually evolving and complex business environment requires sophisticated principle-based accounting and auditing standards. The principles require professional judgement to be exercised by preparers and auditors.

Recent amendments to auditing standards and guidance relevant to ASIC's findings

Accounting estimates and related disclosures

The largest number of ASIC's inspection findings in recent years relate to audit work on asset values and impairment of non-financial assets². Details of the nature, type and extent of the findings and factors contributed to those findings can be found in ASIC's Inspection Reports.

These accounting estimates can be complex with high levels of estimation uncertainty which require the exercise of professional scepticism and judgement by both the preparer and auditor. Judgement may be required as to the audit procedures and evidence required, accounting treatments and accounting estimates. The auditor should also consider the adequacy of disclosures in the financial report on accounting policies, key assumptions, sources of estimation uncertainty and where reasonably foreseeable changes in assumptions would result in impairment.

Estimates may be based on complex models that involve forecasts using assumptions about future business performance and events. Additionally, auditing estimates often necessitate the involvement of management's and / or the auditor's own experts. The auditing of estimates can be challenging, and it can be difficult to gather sufficient and appropriate evidence.

The following pronouncements and publications have been issued by the AUASB to assist auditors in this area:

- [ASA 540 Auditing Accounting Estimates and Related Disclosures](#) has been reissued with significantly enhanced requirements and application material. The enhancements are aimed at:
 - keeping pace with the evolving and complex business environment of today,
 - driving appropriate work effort in relation to risks of material misstatement,
 - improving the audit focus on disclosures related to accounting estimates, and
 - emphasising appropriate professional scepticism relating to accounting estimates and related disclosures.

² Approximately 44% of the findings in 2020 concern audit procedures and evidence on impairment of non-financial assets, investments and financial instruments.

This revised auditing standard became effective for reporting periods commencing on or after 15 December 2019 and the AUASB has issued extensive implementation support materials to assist auditors in this often complex area. Refer to Appendix 2 for details of the extensive implementation support material available including frequently asked questions and illustrative examples for auditing simple and complex accounting estimates.

- [Guidance Statement GS 005](#) *Evaluating the Appropriateness of a Management’s Expert Work* has been reissued to provide detailed guidance on practical implementation of ASA 500³, if information to be used as audit evidence has been prepared using the work of a management’s expert. The AUASB worked with representatives from accounting firms and ASIC to ensure GS 005 would provide appropriate guidance for auditors and assist in addressing ASIC’s regulatory concerns in this area.
- Two AUASB publications provide guidance to assist auditors in assessing integrity and reliability of data used when auditing accounting estimates:
 - [Integrity of Data Obtained for the Purpose of an Audit of a Financial Report](#);
 - AUASB Publication *Assessing the Reliability of Data Obtained for the Purpose of an Audit of a Financial Report* (to be issued shortly).

Revenue and receivables

Revenue and receivables is the area with the second highest number of negative findings from ASIC inspections in recent years. The areas where ASIC concluded the audit procedures conducted were inappropriate and / or inadequate included:

- Revenue recognition not in accordance with Accounting Standards.
- Not checking key contract terms.
- Substantive analytical procedures or tests of detail not in accordance with ASA 520⁴ and ASA 530⁵.
- Not testing management’s assumptions or calculations of expected credit losses on receivables or the data used.
- Not testing significant assumptions concerning performance obligations and estimates of unearned revenue.

Further details of the nature, type and extent of the findings and factors contributed to those findings can be found in ASIC’s Inspection Reports.

While not giving rise to negative findings, ASIC also identified instances where audit work in the following areas was inadequate:

- Risk assessment, in particular, not an appropriate response to the risk.
- Understanding and / or testing of internal controls.

The following has been issued to enhance audit quality:

- The revised [ASA 540](#) which assists auditors in performing appropriate procedures in relation to the estimation of performance obligations, unearned revenue and expected

³ [ASA 500 Audit Evidence, paragraph 8](#)

⁴ [ASA 520 Analytical Procedures](#)

⁵ [ASA 530 Audit Sampling](#)

credit losses under the accounting standards for Contract Revenue⁶ and Financial Instruments⁷ that have come into effect in recent years.

- The IAASB illustrative examples of how to apply [ISA 540 when auditing expected credit loss accounting estimates](#).
- The IASB / AASB's guidance on [AASB 9 Financial Instruments, Application of IFRS 9 in the light of the Coronavirus uncertainty](#), and [AASB 15 Revenue from Contracts with Customers \(December 2018\)](#), which will assist both preparers and auditors.
- The revised [ASA 315⁸ Identifying and Assessing the Risks of Material Misstatement](#), which has been enhanced to drive auditors to perform a more appropriate and robust risk assessment, and thereby a more focused response to those identified risks. ASA 315 also includes increased requirements and guidance on internal controls as follows:
 - Guidance on understanding the entity's system of internal control,
 - Increased specificity on controls which the auditor must identify that address risks of material misstatement; and
 - Considerations in relation to information technology (IT) including identifying risks arising from the use of IT and general IT controls that address those risks.ASA 315 will be effective for financial reporting periods commencing on or after 15 December 2021, and the IAASB and AUASB are developing implementation support materials for auditors. Refer to Appendix 2 for details of the implementation support materials currently available or under development.
- The following AUASB publications, which provide guidance to assist auditors in assessing integrity and reliability of data when auditing revenue:
 - [Integrity of Data Obtained for the Purpose of an Audit of a Financial Report](#);
 - *Assessing the Reliability of Data Obtained for the Purpose of an Audit of a Financial Report* (to be issued shortly).

Other observations where existing auditing standards are being inconsistently applied

The AUASB has been engaging with ASIC to identify other areas where they have observed inconsistency in practice and where clarification of the existing requirements may be required. Not all these matters result in inspection findings under the current auditing standards. Refer to Appendix 1 for further detail.

⁶ AASB 15 *Revenue from Contracts with Customers*

⁷ AASB 9 *Financial Instruments*

⁸ Effective for financial reporting periods beginning on or after 15 December 2021.

International standard setting developments relevant to audit quality and inspection findings

Our auditing standards are consistent with standards issued by International Auditing and Assurance Standards Board (IAASB). The IAASB is updating the following standards, which will assist in addressing regulator concerns and enhance audit quality:

- ISA/ASA 600 *Special Considerations: Audits of a Group Financial Report*, which is being revised and is expected to be released in early 2022.
- ISA/ASA 500 *Audit Evidence*, the review of which has commenced.

In its recent consultation on the IAASB's upcoming work plan the following standards were identified as requiring update:

- ISA 330 *The Auditor's Responses to Assessed Risks*;
- ISA 520 *Analytical Procedures*; and
- ISA 530 *Audit Sampling*.

As part of our [International Influencing Strategy](#) the AUASB will monitor and provide input to any redevelopment of these standards.

Other actions to enhance audit quality

Quality Management Standards

To further enhance audit quality the AUASB has issued revised Quality Management Standards which are required to be implemented by 15 December 2022, and consist of:

- [ASQM 1](#)⁹ which requires firms to design, implement and operate a system of quality management to manage the quality of engagements performed by the firm. ASQM 1 applies to all firms that perform audits or reviews of financial reports, or other assurance or related services engagements.
- [ASQM 2](#)¹⁰, which covers the appointment, eligibility and responsibilities of the Engagement Quality Reviewer.
- Revisions to [ASA 220](#)¹¹ which includes specific responsibilities of the auditor regarding quality management at the engagement level for an audit of a financial report, and the related responsibilities of the engagement partner.

A [dedicated Quality Management page](#) on the AUASB's website contains implementation support for auditors. The AUASB is working to issue guidance that assists practitioners implement the revised Quality Management Standards in conjunction with the Accounting

⁹ ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, replaces the IAASB's current standard, International Standard on Quality Control (ISQC 1)

¹⁰ ASQM 2 *Engagement Quality Reviews*

¹¹ ASA 220 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*

Professional Bodies¹². Refer to Appendix 2 for details of the implementation support materials currently available.

Impact of Technology on audits

The AUASB recognises the importance of providing appropriate and timely guidance on the impact of technology to assist with audit quality. The AUASB has established a Project Advisory Group consisting of members from the audit firms, including the public sector, with relevant experience on the impacts of technology on the audit as well as addressing emerging issues. The AUASB has a dedicated [Technology page](#) on its website which contains relevant guidance issued by the AUASB and other standard setters to assist auditors in considering the impact of technology, such as;

- [The Consideration of Cyber Security Risks in an Audit of a Financial Report](#);
- [Integrity of Data Obtained for the Purpose of an Audit of a Financial Report](#);
- [Addressing Exceptions in the use of Audit Data Analytics](#); and
- [Auditing Crypto-Assets](#).

AUASB Digital Standards Portal

The AUASB is the first standard setter internationally to release a [fully interactive digital portal](#) to make it easier for auditors to access and use Auditing Standards. It transforms more than 1500 pages contained across 57 Auditing Standards into fully accessible and interactive content, with links to useful references that make the site quick to navigate and includes a powerful search capability. The AUASB made this significant investment to assist auditors navigate the Auditing Standards to assist with audit quality.

Future initiatives

The AUASB will continue to engage with ASIC, auditors and other stakeholders to identify initiatives to assist with enhancing audit quality. If you have any feedback or suggestions, please contact us at enquiries@auasb.gov.au.

¹² Chartered Accountants Australia New Zealand and CPA Australia

Appendix 1

Other observations where existing auditing standards are not being consistently applied

| ASIC's observation | Relevant requirements and guidance |
|--|---|
| <p>ASA 240¹³- not appropriately evaluating the presumed risk of fraud in revenue recognition as follows</p> <ul style="list-style-type: none"> not being done at all, and not documented why or is not being done based on different types of revenue and risk profiles, or at the assertion level. | <p>ASA 240 paragraph 27 requires the auditor, based on a presumption that there are risks of fraud in revenue recognition, to evaluate which types of revenue, revenue transactions or assertions give rise to such risks. If the auditor concludes that the presumption that there is a risk of material misstatement due to fraud related to revenue recognition is not applicable in the circumstances of the engagement, the auditor shall document the reasons for that conclusion (ASA 240 paragraph 48).</p> <p>ASA 240 Appendix 1 Examples of fraud risk factors provides helpful guidance on factors to consider when assessing the risk of fraud, and examples of how they may be addressed by auditors in a broad range of situations.</p> |
| <p>ASA 240 – instances where auditors did not test journal entries and adjustments at year end, or did not evaluate whether journal entries and adjustments needed to be tested throughout the year.</p> | <p>Auditors are reminded that ASA 240 paragraph 33 requires the auditor to design and perform audit procedures to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial report. This includes selecting journal entries and other adjustments made at the end of the reporting period and consider the need to test journal entries and other adjustments throughout the period.</p> <p>In addition, the revised ASA 315 paragraph 26 requires auditors to identify and test the design and implementation of controls over journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments.</p> |

¹³ ASA 240 *The Auditor's Responsibilities Related to Fraud in an Audit of a Financial Report*

| ASIC's observation | Relevant requirements and guidance |
|--|---|
| <p>ASA 330¹⁴ - not performing substantive procedures for each significant assertion for each material class of transactions, account balance and disclosure. Some auditors have interpreted this to mean that this is required for one assertion of choice.</p> | <p>ASA 330 paragraph 18 requires the auditor to design and perform substantive procedures for each material class of transactions, account balance and disclosure. Subsequent to ASIC's observations the IAASB amended ASA 330 to include additional application material (paragraph A43 and A44). This highlights the requirement in ASA 330 paragraph 6 to design and perform further audit procedures whose nature, timing, and extent are based on and are responsive to the assessed risks of material misstatement at the assertion level. The revised guidance states that not all assertions within a material class of transactions, account balance or disclosure are required to be tested. Rather in designing the substantive procedures to be performed, the auditor's consideration of the assertion(s) in which, if a misstatement were to occur, there is a reasonable possibility of the misstatement being material, may assist in identifying the appropriate nature, timing and extent of the procedures to be performed.</p> <p>Therefore, the auditor considers the most appropriate assertions when designing substantive procedures.</p> |
| <p>ASA 330 – Insufficient consideration of the factors to consider when assessing the appropriateness of using audit evidence on the operating effectiveness of controls obtained in previous audits.</p> | <p>Auditors are reminded of ASA 330 paragraphs 13 – 14, which contains the relevant requirements which include considering the effectiveness of the other elements of internal control (i.e. the control environment), the risks of material misstatement and the extent of reliance on the control and obtaining audit evidence about whether there have been significant changes since the relevant control was tested.</p> |

¹⁴ ASA 330 *The Auditor's Response to Assessed Risks*

Appendix 2

Implementation support

The AUASB has dedicated webpages with access to all relevant guidance issued by the AUASB, the IAASB, other National Standard Setters, Regulators and Professional bodies for each of the follow topic areas:

ASA 540 Auditing Accounting Estimates and Related Disclosures

<https://www.auasb.gov.au/support-resources/auditing-accounting-estimates/>

ASA 315 Identifying and Assessing the Risks of Material Misstatement

<https://www.auasb.gov.au/implementation-support/asa-315-identifying-and-assessing-the-risks-of-material-misstatement/>

Quality Management Standards

<https://www.auasb.gov.au/implementation-support/quality-management-standards/>

Technology resources

<https://www.auasb.gov.au/implementation-support/technology/>