



**ASIC**

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7 June 2018

Mr Grant Hehir  
Auditor-General  
Australian National Audit Office  
19 National Circuit  
BARTON ACT 2600

Dear Mr Hehir

**Audit Inspection Report – June 2018**

Please find attached the report from our recent audit inspection at the Australian National Audit Office (ANAO), which covered reviews of:

- key areas in two audits conducted by the ANAO of financial reports for the year ended 30 June 2017; and
- aspects of the ANAO's quality control processes and quality assurance framework relating to audits of financial reports.

We would like to thank your staff for their co-operation during our inspection process.

Yours faithfully

A handwritten signature in black ink that reads 'Doug Niven'.

Doug Niven  
Senior Executive Leader, Financial Reporting and Audit



**ASIC**

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# Australian National Audit Office

## Audit Inspection Report

June 2018

### **About this report**

This report summarises findings from our reviews at the Australian National Audit Office (ANAO) of:

- key areas in two audits conducted by the ANAO of financial reports for the year ended 30 June 2017; and
- aspects of the ANAO's quality control processes and quality assurance framework relating to audits of financial reports.

### **Disclaimer**

We reviewed selected areas of audits and quality controls. Although this report may describe deficiencies identified, this should not be taken to provide assurance that the ANAO's audits and systems are free of other deficiencies.

This report may be released to the public in full. The report should not be quoted or summarised by the ANAO in any other publication without reference to a website where the full report is publicly available. Please notify ASIC in writing at least two business days prior to releasing this report to the public.

## Background

- 1 This report summarises our findings from:
  - (a) Reviews of key areas in two audits of financial reports for the year ended 30 June 2017 conducted by the ANAO. These two reviews were conducted using ASIC's methodology for reviewing private sector audits under our audit inspection programme;
  - (b) A high level review of the ANAO's policies covering the key requirements of auditing standard ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements* (ASQC 1). That review included review of key policy documentation and the design of the quality assurance framework. We also conducted interviews of key personnel with responsibility on the effective operation of the policies but did not include detailed compliance testing on the operation of the policies; and
  - (c) A detailed review of the ANAO's programme of internal quality reviews of financial statement audits. This included reviewing: checklists used in internal reviews; the ANAO's system for rating findings from its reviews; the ANAO's internal reporting of findings; statistics collected on the results of internal reviews for both audits conducted by ANAO staff and outsourced audits; internal review results and the reporting of findings for a small selection of files; and recent changes to the grading of findings.
- 2 The reviews were undertaken by staff in ASIC's Financial Reporting & Audit team with no involvement in financial reporting by ASIC. These staff reported to the Auditor-General in relation to the reviews, not the Commissioners of ASIC.

## Audit review findings

- 3 In our view, the auditor did not obtain reasonable assurance that the financial report was free of material misstatement in the areas summarised in Table 1. This should not be taken to infer that the financial report was materially misstated, but rather that the auditor did not obtain sufficient evidence to support their opinion.

**Table 1: Audit review findings – risk of material misstatement**

Entity	Areas with findings	Findings
Entity A	3 of the 4 key areas reviewed	<ul style="list-style-type: none"> <li>• While grant payments were agreed to a milestone report that should be supported by the funding agreement, the auditor should have evidenced a review of contract terms and conditions for grants made.</li> <li>• The auditor did not obtain sufficient audit evidence in the current year on the existence, valuation, rights and obligations relating to cash held in trust disclosed in the notes and related obligations, including the appropriateness of not recognising amounts on balance sheet. We understand that the appropriateness of not recognising amounts on balance sheet accounting policy requirements in relation to grant expense and locked box arrangements had been considered in prior year audits.</li> </ul>

Entity	Areas with findings	Findings
Entity A (continued)		<ul style="list-style-type: none"> <li>The appropriateness of journals selected should have been tested and documented. Consideration should be given to including a risk based element to selecting journals for testing to address any possibility that false or erroneous manual journals might materially affect the financial results.</li> </ul>
Entity B	1 of the 4 key areas reviewed	<ul style="list-style-type: none"> <li>The auditor should have tested the source data used and the reasonableness of key assumptions used by management's experts who valued tangible assets.</li> </ul>

4 Our other findings from audit reviews are summarised in Table 2.

**Table 2: Audit review findings – other**

Entity	Findings
Entity A	<ul style="list-style-type: none"> <li>The auditor should have considered additional matters in assessing the risk of fraud and assessed controls to detect matters such as conflicts of interest.</li> <li>The auditor should have obtained an understanding of the underlying assets of a trust in which the entity invested to assess the basis for determining fair value, considered the reasons why a subsequent event disclosure was not made in relation to the investment.</li> <li>While it appeared that the entity had not yet issued convertible notes under existing agreements, the auditor should have review the ability of the entity to enter into the agreements and obtained evidence about whether notes had been issued.</li> </ul>
Entity B	<ul style="list-style-type: none"> <li>The auditor should have considered whether gains for tax overpaid by the entity when it was part of another agency were appropriately recognised as income.</li> </ul>

## Quality controls

5 Table 3 summarises our good practice recommendations in relation to the ANAO's policies to address key requirements of auditing standard ASQC 1 and its programme of internal quality reviews. The ANAO has indicated that it will consider these recommendations. Within the scope of our review (see paragraph 1(b) above), we did not identify any areas where the design of the framework did not satisfy the requirements of ASQC 1.

**Table 3: Quality controls – good practice recommendations**

Area	Good practice recommendations
Risk rating of audits	<ul style="list-style-type: none"> <li>A relatively small number of audits were rated as high risk or material to government consolidated statements, and thus requiring a second reviewer. Consideration could be given to rating all public interest entities as high risk or appointing a second reviewer.</li> </ul>
Quality reviews	<ul style="list-style-type: none"> <li>Consideration could be given to reviewing and challenging audit judgements in internal reviews of audits.</li> </ul>