



**ASIC**  
Australian Securities &  
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Mr Grant Hehir  
Auditor-General  
Australian National Audit Office  
19 National Circuit  
BARTON ACT 2600

13 August 2019

Dear Mr Hehir

**Audit Inspection Report**

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

- Key areas in three audits conducted by the ANAO of financial reports for the year ended 30 June 2018; 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

Doug Niven  
Senior Executive Leader, Financial Reporting & Audit



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# Australian National Audit Office

## Audit Inspection Report

August 2019

### About this report

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

- key areas in three audits conducted by the ANAO of financial reports for the year ended 30 June 2018; and
- aspects of the ANAOs 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.

## Background

- 1 This report summarises our findings from:
  - (a) Reviews of key areas in three audits of financial reports for the year ended 30 June 2018 conducted by the ANAO. These three 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 and processes covering engagement resourcing, including rotation of key executives and staff on engagements. That review included review of key policy documentation. 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;
  - (c) A review of responses to our good practice quality control recommendations from our prior year's review of the ANAO's quality assurance framework; and
  - (d) A review of key dates relevant to audit engagement project management, in three audit files reviewed.
- 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	4 of the 4 key areas reviewed	<ul style="list-style-type: none"> <li>• <i>Other intangibles</i> - In auditing capitalised intangible assets, the auditor should have reviewed the nature of activities for expended amounts capitalised to ensure the accounting standard requirements for capitalisation were met. The auditor should also have agreed capitalised amounts tested to bank statements, as well as reviewing the description of the intangible asset in the financial statements.</li> <li>• <i>Revenue, suppliers' expenses and computer software</i> - In substantive testing of revenue, suppliers' expenses, and computer software additions, amounts received and paid should also have included agreement to bank statements.</li> </ul>
Entity B	1 of the 4 key areas reviewed	<ul style="list-style-type: none"> <li>• <i>Heritage and cultural assets</i> - The auditor should have tested the source data used and the reasonableness of key assumptions used by management's experts who valued heritage and cultural assets, where a desktop valuation was conducted in the current year. The auditor could also have considered appointing an auditor's expert. .</li> </ul>

Entity	Areas with findings	Findings
Entity C	2 core audit areas reviewed <sup>1</sup>	<ul style="list-style-type: none"> <li><i>Indirect laws and regulations</i> - Where a royal commission had commenced during the year in relation to the entity's activities and compliance with legislation, the auditor did not adequately evidence their understanding and assessment of any possible direct financial impact from non-compliance with indirect laws and regulations; and</li> <li><i>Journal entries</i> - In conducting mandatory journal entry testing of year end journals, the auditor did not select a sufficient sample of journals processed at the year end.</li> </ul>

## Quality controls

Table 2 summarises our good practice recommendations in relation to the ANAO's policies and processes covered in the current year's scope of quality control review. The ANAO has indicated that it will consider these recommendations.

**Table 2: Quality controls – good practice recommendations**

Area	Good practice recommendations
Engagement resourcing	The ANAO's policy is to rotate executives after 5 years of involvement on an audit in a signing and/or quality review role. As a matter of good practice, the ANAO may wish to consider also rotating staff below signing officer level (eg engagement manager) who have been involved in an audit for a significant number of years.
Rotation tracking	The ANAO tracks executive rotation using a spreadsheet. To avoid inadvertent breaches, it is recommended that an automated system with alerts be considered.
Engagement planning sign-off date	In three engagement files reviewed by us, planning was formally signed off by the engagement leader during the year end fieldwork. The ANAO should consider introducing and monitoring compliance with a mandatory or target milestone, for overall planning to be signed off by the engagement leader at a date before the commencement of any interim or year-end fieldwork.

We did not have any findings arising from our reviews of the ANAO's responses to ASIC's prior year good practice quality control recommendations.

<sup>1</sup> For Entity C, there were no findings in key audit areas reviewed, however, there were two findings rated with a risk of material misstatement in other core areas of the audit file reviewed by ASIC.