



ASIC
Australian Securities &
Investments Commission

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

31 August 2020

Dear Mr Hehir

Audit Inspection Report – 12 months to 30 June 2020

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 2019; and
- aspects of the ANAO's pilot program for root cause analysis of deficiencies in 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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Audit Inspection Report

12 months to 30 June 2020

August 2020

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 2019; and
- aspects of the ANAO's pilot program for root cause analysis of deficiencies in audits of financial reports.

Although this report may describe deficiencies identified, this should not be taken to provide assurance that the ANAO's audits and systems, or audited financial reports, are free of other deficiencies.

This report is intended to communicate our findings in a clear and concise manner to leadership of the ANAO who are informed auditing and accounting professionals. While there are no restrictions on the ANAO providing this report to third parties or releasing the report to the public, other readers of this report may not have the full context of this report and the findings summarised herein.

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 2019 conducted by the ANAO. Our reviews were conducted using ASIC’s methodology for inspections of private sector audits;
 - (b) A review of the ANAO’s policies and processes in a pilot program for identifying root causes of findings from the ANAO’s internal quality assurance monitoring program relating to audits of financial reports; and
 - (c) A review of the ANAO’s responses to the good practice quality control recommendations in our prior year report.
- 2 The reviews were undertaken by staff in ASIC’s Financial Reporting & Audit team who have 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	1 of the 4 key areas reviewed	<ul style="list-style-type: none"> • <i>Capitalised costs</i> – for capitalised costs incurred with a major external contractor, the auditor should have: <ul style="list-style-type: none"> ○ tested invoices to the contract; ○ reviewed costs against the work program, milestones and budget; and ○ tested whether any rework or other costs were incurred that should not be capitalised.

Entity	Areas with findings	Findings
Entity B	2 of the 2 key areas reviewed	<ul style="list-style-type: none"> • <i>Unearned revenue</i> - the auditor should have tested the allocation of amounts to unearned revenue at year end and journal entries processed each month to support revenue recognised. • <i>Non-financial assets and related contingent liabilities</i> – the auditor should have: <ul style="list-style-type: none"> ○ considered whether the accounting treatment from prior years remained appropriate having regard to any subsequent changes in facts and circumstances; and ○ performed procedures to detect changes in circumstances from balance date to the date of signing the audit report.
Entity C	None of the key audit areas reviewed ¹	<ul style="list-style-type: none"> • <i>Journal entries</i> - In testing of year end journals, the auditor did not select a sufficient sample of year end journals for testing.

Root cause analysis and prior year quality control recommendations

- 4 We reviewed the ANAO’s policies and processes for a pilot program conducted in 2019 for identifying the root causes of findings from the ANAO’s internal quality assurance monitoring program relating to audits of financial reports. We reviewed policy documents and reports, and interviewed personnel with responsibility for the conduct of root cause analysis. We did not otherwise test the operation of the policies. Table 2 summarises our good practice recommendations. The ANAO has indicated that it will consider these recommendations.

Table 2: Root cause analysis – good practice recommendations

Area	Good practice recommendations
Root cause analysis	<p>The pilot program should be made permanent and expanded to cover:</p> <ul style="list-style-type: none"> • all findings on non-outsourced audits; • findings on outsourced audits; • audits where there have been subsequent restatements of financial reports; and • findings from ‘hot’ reviews.

- 5 We did not have any findings arising from our review of the ANAO’s responses to our prior year good practice quality control recommendations.

¹ The finding in relation to journal entry testing is not specific to individual audit areas reviewed.