

# SMALL ENTITIES AUDIT MANUAL (SEAM) 2017

## LIVE CHAT: QUESTIONS AND ANSWERS

### INTRODUCTION

There is a diverse range of audit, review and compilation engagements conducted for small entities in Australia. Whilst many are required by legislation or regulation, others are set out in the entity's constitution or rules or elected by a Board resolution.

SEAM helps practitioners navigate their way through the relevant legislation and supports them in meeting the requirements of the Code of Ethics and Auditing and Assurance Standards when conducting and reporting on these engagements.

The more common types of engagements specifically addressed are:

- audit or review of a company limited by guarantee
- audit or review of an association – incorporated or unincorporated
- audit of a self-managed superannuation fund
- audit of client monies
- compliance engagements
- audit of a solicitor's trust account
- audit of a real estate agent's trust account
- grant acquittals

Often engagements combine audit, review or compilation of financial, non-financial, compliance or controls into one engagement. These "multi-scope engagements" create added complexity and each present their own challenges, which mean that auditing small entities does not necessarily equate to being simple, straightforward or low risk engagements.

Are you having challenges in conducting such engagements?

The experts who addressed members' questions were:

- Claire Grayston CPA, Policy Adviser - Audit and Assurance, CPA Australia
- Ram Subramanian, Policy Adviser – Reporting, CPA Australia
- Sarah Scoble, Learning Curator – Education, CPA Australia

## PRIMARY RESOURCES

- [SEAM](#)
- [Auditing and Assurance Standard Board](#)
- [ASA Standards \(Australian Auditing Standards\)](#)
- [ASRE Standards \(Standards on Review Engagements\)](#)
- [ASAE Standards \(Standards on Assurance Engagements\)](#)

## QUESTIONS AND ANSWERS

**I have been asked by a couple of P&C associations to do their audit. From what I have seen on the P&C Federation website (see attached the example of audit report), it's not a full-blown audit. But when I read the SEAM manual on association audit, there seem to be a vast difference in the requirements of CPA to what the P&C need to fulfil their obligations to the Federation. The P&C only operate a school canteen a couple of days a week and are run by volunteers with little accounting or book keeping skills. They don't have to produce financial statements for the Federation. And they are not registered with the ACNC. And they come under the Federation of Parents & Citizens Associations Incorporated Act 1976.**

**So, my question is to be able to do these audits – do I need to do an audit covering all the items in the SEAM manual when this is not what the client is needing? Can I do a simplified audit and audit report? Does it make any difference that they are governed by difference act to the one in the SEAM manual – Associations Incorporation Act 2009 No 7 and Associations Incorporations Regulations 2010 (for NSW)?**

**I would use engagement letters and use the audit program to show the work done. I am in NSW.**

The requirements for Parents and Citizens' (P&C) Association engagements are not set out in the legislation (Parents and Citizens Associations Incorporation Act 1976) and are not very clearly articulated in [the Guide for P&C Association Treasurers](#).

The Guide for P&C Association Treasurers states that the engagement conducted by the "auditor" "reconciles the records" and "provides a summary of total assets", however this is not consistent with an audit under the AUASB Standards. Government and other regulatory requirements do not always allow for practitioners to meet the requirements of the AUASB Standards, which can make it difficult to conduct the engagement described in the relevant requirements as an audit, review or compilation engagement. CPA members are required to comply with Code of Ethics and Standards issued by the Australian Professional and Ethical Standards Board (APESB). [APES 210 Conformity with Auditing and Assurance Standards](#) (para.4) requires that a Member either comply with Auditing and Assurance Standards or, where legislation or other government authority requires a departure from Auditing and Assurance Standards, a Member shall disclose that fact in the Member's report. In these circumstances, a Member shall not assert compliance with any of those standards in the Member's report.

As the example "auditor report" does not meet the requirements of the AUASB Standards, you would need to clarify that in your report. It may be possible to conduct the engagement as a compilation engagement under

[APES 315 Compilation of Financial Information](#), but if you conduct the engagements as an audit or review you will need to report in compliance with [ASA 805 Special Considerations-Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement](#) or [ASRE 2405 Review of Historical Financial Information Other than a Financial Report](#), which will require significantly different wording of the report from that provided in the example in the Guide for P&C Association Treasurers. As the auditor report is only an example, it may be possible to use alternative wording.

The scope of the engagement which is agreed in the engagement letter and stated in your report will determine the nature and extent of work required. If you conduct an audit or a review this will still need to be adequate to provide sufficient appropriate audit evidence to support your opinion or conclusion. That may be a more restricted scope than the examples provided in SEAM.

### **Where can I find an audit engagement letter template for a not for profit charity organisation?**

SEAM Chapter 10 provides generic engagement letter templates for audits (10A1) and reviews (10B1), which can be tailored to charities. The AUASB Standards also provide example engagement letters for audits in *ASA 210 Agreeing the Terms of Audit Engagements*, Appendix 1, and reviews in *ASRE 2400 Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity*, Appendix 1, again these will need to be tailored to the specific engagement circumstances.

### **Where can I find examples for the new audit report formats in relation to special purpose financial reports, specifically for incorporated associations and school councils?**

The examples in *ASA 800 Special Considerations—Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks* Appendix 1 reflect the amendments to the standard for auditor's reports.

### **Previous versions for the last two of the SEAM manual contained solicitor trust account sample documents in the appendix, however the newest version of doesn't appear to. Is there any reason why this has been removed?**

Chapter 7 still retains appendices from previous Chapter 8 on Solicitors Trust Account Audits. These are relevant acts/legislation and sample audit programs. It now contains additional appendices for example letter and reply for trust money circularisation and an example representation letter.

### **The audit program of the CPA members trust account does not include an audit planning memorandum reference or work reference - are there are examples available to show what to include on the audit planning worksheet?**

SEAM doesn't currently include any audit planning checklists in the program. We will make note of this to consider in future updates to SEAM.

### **For entities that are registered with ACNC, should we follow the audit report that is in ACNC website or ASA 800? Noted that in the ACNC version, some of the fairly presented wording is removed.**

The AUASB Standards are mandatory so you will need to ensure that you follow the applicable standard, ASA 800, however the [latest ACNC audit templates](#) should comply with the AUASB Standards.

### **The question is about the ASRE 2400 Review of a Financial Report. We were recently approached by a client who is applying for visa 132.**

**What I am confused with is the immigration office requires the financial statements are prepared in accordance with international/Australian accounting standards, while my client's business is based in China, the financial reports are prepared with China's accounting principles and policies.**

**When I prepare the engagement letter and rep letter, should I clarify that it is the business's management responsibilities that the financial reports should be prepared in accordance with international/Australian accounting standards?**

**My understanding is my work is to review the financial statement, not to modify the financial statement to comply with international/Australian accounting standards, or should it be a part of my review engagement to restate the accounts as per IAS?**

If the requirements are set out clearly by the immigration office that the financial statements must be prepared in accordance with IFRS/AAS, then it appears the client needs to ensure that their financial statements are in compliance. If that is not the case, then it may be required that the client should clarify whether their financial statements prepared under Chinese Accounting Standards are acceptable to the immigration office. If they are, then you may be able to proceed with your review engagement.

It also depends on what the stipulated requirements are for your review engagement. If the requirement is for the review to ensure compliance with IFRS/AAS in the financial statements, you may not be able to comply with this requirement. If there is no such requirement, you may be able to carry out a review of the financials prepared in accordance with CAS, but whether that is acceptable to the immigration office or not will be up to them.

**The immigration office requires the financial statements must be prepared in accordance with IFRS. So, it is the client's responsibilities to prepare the financial reports as per IFRS, my review work is only see if the financial reports are compliant, not including restating the financial reports as per IFRS.**

Yes, broadly it would be the client's responsibility in most circumstances.

If they are not compliant with IFRS as required, you may not be able to proceed until they are prepared in a compliant manner by the client.

**During the review work, if they come across any questions about restating the financial reports as per IFRS, am I able to provide any advice or help? Any implications on my independence, etc.?**

If they are restating the financial reports per IFRS, you do need to carefully consider your independence obligations under APES 110, etc. if they approach you for assistance with the restatements. Also we would suggest having a look at the [CPA Australia Independence Guide](#).

**What auditing software do you recommend?**

Unfortunately, we cannot endorse any particular audit software.

**If we use the SEAM manual to complete not for profit audits - would the program pass a Quality Review?**

SEAM is intended to assist you in conducting audits including a not for profit audit, however it is not a substitute for reading the relevant auditing standards and specific legislation. You will need to use your professional judgement in conducting your audit referencing the auditing standards rather than SEAM specifically, in order to meet your Quality Review requirements.

**Since audit of solicitors' trust account and audit of real estate trust account is a compliance type of audit, I cannot see any guidelines in Chapter 5 about who can audit them?**

Each state has different requirements for who can conduct solicitor trust account audits and real estate trust accounts. These requirements also do change from time to time. Chapter 7, Appendix 7A lists the websites containing the relevant legislation for solicitor trust account audits in each state in order to check the relevant requirement for your state. Chapter 8, Appendix 8A lists quite a few of the requirements for who can audit real estate agents trust accounts in each state but it is also advisable to check the relevant website.

**Is the SEAM Manual available in the CPA Library? What is the price? How does it help one in doing the Audit and Compliance work?**

The SEAM manual is available from our website and is free for CPA Australia members. It can be found at the following short link: <http://www.cpaaustralia.com.au/seam>

SEAM provides guidance, easy to use templates and other resources to assist with audit, assurance and review engagements. It, of course, does not take away your primary responsibility to apply the audit and assurance standards issued by the AUASB.

**Can the SEAM manual be made interactive so that all documents can be completed and used as our formal records?**

We agree that this would be a useful enhancement and we will consider whether this may be possible in the future.

**Where can we find an audit report template for concise financial statements for companies?**

You can find guidance and an example report in the AUASB's [GS 001](#) *Concise Financial Reports Under the Corporations Act 2001*, however this guidance statement does not reflect the latest changes to the auditing standards. The AUASB are working on revising this guidance statement, so you will also need to refer to current auditing standard ASA 810 *Engagements to Report on Summary Financial Statements*, applicable for periods ending on or after 15 December 2016, to ensure that you are using that correct wording.

Note: on 3 May 2017 the AUASB has released a revised Guidance Statement [GS 001](#) *Concise Financial Reports Under the Corporations Act 2001*.

**Guidance Statement GS 001 was issued in 2010 and now outdated.**

The AUASB is working on revising GS 001, [here's a link](#) to their working draft which is not yet issued. The AUASB is still considering the best way to reissue the original guidance in GS 001.

Note: on 3 May 2017 the AUASB has released a revised Guidance Statement [GS 001](#) *Concise Financial Reports Under the Corporations Act 2001*.

**Can we use it for Real Estate Agent's Trust Audit?**

SEAM contains Chapter 8 on audit of a real estate agent's trust account.

**Are there any standard audit templates for Real Estate trust account and Strata Plans audits? Or are we required to develop our own programs as these are very specific (not general) audits?**

SEAM manual chapter 8 and in particular Appendix 8D contains an audit program for a real estate agent trust account. It does not contain an audit program for a strata plan audit. We will take this into consideration for future versions.

**Do you have a standard variable outgoing audit program/template?**

Not at present, but we will take this into consideration for future versions.

**Can you provide some guidance of where we can find a template or information about how to complete a variable outgoings audit?**

CPA Australia does not have a standard variable outgoing audit program. Legislation regarding commercial and retail leases is state-based and so the matters to be covered by the auditor's report will depend on the requirements in each state. However, real estate agent and solicitor trust account audits requirements are also

provided by state legislation and so similarly those requirements can vary and we do address those audits in SEAM. So we will consider developing material on outgoing audits for future publications of SEAM. We are not aware of a resource which we can point you towards about how to complete a variable outgoing audit. However as a starting point the material on the [Small Business Development Corporation's website](#) - commercial tenancies may be of assistance in clarifying the scope of the audit. See also: [Common Questions About the Commercial Tenancy Act](#) and [Commercial Tenancy \(Retail Shops\) Agreement Act 1985](#).

**Could you please confirm that there are no surprise visits required for a Solicitor's Trust Account audit in Queensland?**

The external examiner's report in Queensland is a standard form which is provided on the [Queensland Law Society website](#). The opinions and conclusions in this report are quite extensive and may require visits during the year in order to gather sufficient appropriate evidence. We do not believe that there are any current requirements for "surprise visits".

**I really like the previous question on P & C Associations and the like. The guide does not seem to address or provide a clear path when dealing with these types of engagements (generally done at cost or nothing). It would be very helpful to have this set out in the future. The main issue being how to articulate it all and it not looking like an overkill - or maybe that is unavoidable?**

It is a very difficult situation for auditors when regulatory or quasi-regulatory requirements specify wording for the auditor's report which does not comply with the auditing standards. APES 210 does provide requirements in dealing with this situation, as previously discussed. This would be worthwhile for inclusion in a future version of SEAM so we will make a note of that suggestion.

## CONTACT

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