



ROCpod episode 52 – Auditing in our jurisdiction – what auditors want you to know

The ROCpod was a monthly podcast focussed on the regulation of registered organisations. It shared information, tips and tools for improving compliance with legislative requirements.

The podcast was key part of the Registered Organisations Commission's (ROC) education strategy. The ROC was abolished on 6 March. The Fair Work Commission (the Commission) is now the regulator for registered organisations.

Although processes may change under the Commission, much of the podcast content is still useful.

Email any questions about anything in an episode to regorgs@fwc.gov.au.

Speaker Key

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|-----------|------------------------|
| AN | Unidentified announcer |
| CH | Caroline Hamilton |
| MM | Michael Mundt |
| SM | Stephen Milgate |

AN Welcome to *ROCpod: Talking with the Registered Organisations Commission*. The official podcast of the ROC about the regulation of unions and employer associations. And in this monthly podcast we'll share essential information, uncover handy hints and tips and reveal our best tools for proactive compliance with the complex legislative requirements.

Don't forget to subscribe and see how ROCpod can help you and your organisation.



00:00:40

CH Hello and welcome to *ROCpod: Talking with the Registered Organisations Commission*. My name is Caroline Hamilton and I'm the Senior Communications Officer at the ROC. Today's episode is about the role of the registered auditor.



The *Fair Work (Registered Organisations) Act* – or as we call it, the ‘RO Act’ - requires that the financial reports of registered organisations and branches must be audited by a registered auditor. It’s an important part of the financial reporting process.

To help me with today’s discussion, I’m pleased to be joined by Michael Mundt and Stephen Milgate. Both Michael and Steve are Registered Company Auditors and Partners at Daley– a chartered accounting firm based in NSW. They’re also registered auditors in our jurisdiction and have worked with several reporting units.

Thank you for your time today, Michael and Stephen!

MM Hi Caroline.

SM Thanks very much for having us.



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CH It’s excellent to get a practical perspective to share with our listeners. You’re both out there conducting audits and answering questions from committees of management. You know what the common questions and challenges are in this space for registered organisations.

So let’s begin today’s episode with an overview of your role.

What are the responsibilities of a registered auditor? Michael, can you tell us in a nutshell... what you see is the role of the registered auditor?

MM Thanks Caroline. Most simply put, the auditor’s role is to provide an opinion on a registered organisation’s financial performance and position, as well as the prescribed financial statement disclosures – and report this opinion back to its members.

The auditor is accountable to the members that appointed them, most directly to the elected members forming the Committee of Management.

There’s a responsibility to ensure that the requirements of the RO Act and Australian Accounting Standards are followed and whilst not a formal obligation, the financial information included within the other statutory returns lodged with the ROC should also be cross-checked to ensure that they are consistently reported.

This obligation extends to reporting back to management about any significant internal control weaknesses identified to help improve an organisation’s financial oversight.

Through all of this, whilst not a defined role of the auditor, there is a unique



opportunity to add value to an organisation's reporting, compliance and overall governance, while remaining within the independence requirements.



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CH So that's an excellent summary. Thank you, Michael.

But there are misconceptions about the role of the auditor. For example, that the purpose of an audit is to detect fraud. And while fraud may be uncovered during an audit, it's not the primary purpose of an audit.

Stephen, are there any other misconceptions about the role of a registered auditor?

SM With any audit, be it an audit of a registered organisation or otherwise, there is often an expectation gap in the understanding of what an audit actually is. Specifically, what constitutes 'reasonable assurance'. Clearly, an audit by its very definition is not the complete verification of every single transaction, nor every single asset and liability - but it is a lot more than doing nothing! So where in between those extremes does the role of an auditor sit? And therein lies the expectation gap.

Other misconceptions include an expectation that the auditor forms an opinion on the Operating Report – this is the document in the financial statement package which includes things like the Committee of Management names and appointment dates, as well as member and employee numbers. The auditor's role with this is expressly limited – to consider whether it is materially consistent with what we have encountered in our audit.

Similarly, the auditor is not required to perform an audit of the Officer and Related Party Disclosure Statement (the ORP), nor the Loans, Grants and Donations Statement. HOWEVER, given the overlap in financial periods and nature of the reporting, we always make it a point to review these documents and compare them to the disclosures in the financial report to ensure consistency.



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CH Now that's a good point. When our ROC officers review the ORP statement and the Loans, Grants and Donations Statement, they may also compare them against the financial report. And while the information in these lodgements are not the same, comparing them against the financial report can help to identify red flags (if there are any).

Are there any other misconceptions about the role of the auditor, Stephen?

SM The concept of materiality can also be misunderstood, as to what is immaterial under the Auditing Standards can sometimes be quite different to that anticipated by management or some members of a Committee of Management.



Finally, sometimes we get questions from members on specific accounting treatments – however it is important to note that the role of the auditor is to form an opinion on the financials as a whole, not on individual balances or transactions.

The key for us is to be completely transparent with all levels of management and the Committee of Management as to what we do, which is addressed in our audit plan and concluding memorandum. This is backed up by our attendance at all our COM meetings to answer any questions that a COM member may have.



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CH Registering as an auditor under the RO Act is separate to the process of being registered as a company auditor with ASIC.

And I understand you're both registered as auditors under both the RO Act and with ASIC.

Michael, is there anything unique about auditing a registered organisation verses other types of business?

MM Yes, that's right Caroline, both Stephen and I have been registered with the ROC since 2017 when the registration process first commenced – and as a firm we have been auditing Trade Union organisations since 1994.

In addition to registered organisations, we look after state registered organisations, as well as entity structures which are member based, as well as private 'for-profit' businesses.

The uniqueness of a registered organisation to us, is the volume of interested members that typically exist – all of which have a vested interest in the outcomes of our work. Members deduct money from their pays each week – which is not insignificant to them – and as a result are interested to see how their hard-earned money have been managed, spent and invested.

So it makes sense that the industry regulator, the ROC, are much more active than any other regulator in reviewing financial reporting – to ensure that members get the quality of information that they deserve. So it's obviously an area of our client's business which is very important to get right!



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CH And if you're interested in registering as an auditor under the RO Act, you can download the application form on the ROC website.

So now let's now talk about your experiences of working with registered organisations.



Stephen, do you have any tips for reporting units when they are seeking to engage a registered auditor? Are there any questions or issues that you think should be addressed before the appointment is made?

SM Thanks Caroline. Generally, the process of changing auditor is a straightforward one.

As you would expect, having experience with the Registered Organisations Act and associated regulations are key to appointing an auditor that can hit the ground running, given that the relevant legislation is quite specific and unique in their requirements. More importantly, this will allow them to draw upon their experiences in dealing with unique situations, which are not necessarily unique across the industry.

With any supplier relationship, a reporting unit should consider if the auditor has adequate backup in place to deal with their continuity of service – including meeting the auditor rotation requirements of the legislation.



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CH We know that reporting units are getting closer to, or have already reached the point, where they need to rotate their auditor, so it's timely information.

Michael, what has been your experience so far with the auditor rotation requirement? Have any of your clients reached the limit?

MM Yes absolutely! We are going through this process this year for the first time for some of our clients – noting that the legislation where rotation came into effect was some 5 years ago now – back in May 2017. How time flies!

The requirements of the rotation legislation is that a registered auditor can only participate in the audit of a reporting unit for five consecutive years (or five out of seven consecutive years). This requirement is applicable to the registered auditor, which is typically the partner signing off on the audit opinion. Accordingly, there is no requirement to change the firm of auditors – just the registered auditor – which is akin to the old saying of not throwing the baby out with the bathwater!

So, from March last year, we have clients for whom both Steve and I have signed our 5th and final audit reports.

CH The ROC will communicate with registered auditors and reporting units where our systems identify that the auditor may need to be rotated. It's part of our role in helping organisations achieve voluntary compliance.

But it's a good idea for reporting units and auditors to have their own checks in place. Has your firm created a process to ensure that the auditor is properly rotated?

MM Yes, over the last 5 years, we have implemented a defined transition plan for all of our clients, so that there are no surprises, and the changeover process has been seamless.



Whilst this might be new to reporting units, similar rotations requirements have already been in place with clients and industries that had embraced the concept of rotation well before these mandated requirements.

What we have found so far is that rotation has been a great opportunity to perform a reset – which allows long-held practices and procedures to be challenged and improved under the direction of a fresh set of eyes.



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CH If you need more information about the auditor rotation requirement, you can go back and listen to our podcast episode 23, *'Is it time to change your registered auditor?'*

We'll jump ahead now to the conduct of an audit and want to explore the practical issues – for example, how you access financial records and how officers of registered organisations can raise concerns with their auditor.

Let's start with the timetable. The timing of audits is not the same across all reporting units – you can check the rules of your organisation to determine your reporting unit's financial year. In our jurisdiction there are 7 financial years, 7 different ones!

But there are typical steps that are taken in all audits.

Stephen, can you step us through the timetable of an audit? How soon after the end of the financial year is the audit conducted, and what are the steps that follow?

SM As you might expect, each registered organisation will be different in terms of how the audit timeline looks. Communication is the key and all important milestone dates should be agreed upon, which as an example we summarise up front in our audit plan – documenting everything ... from the dates of field work, right through to the delivery of all reporting and the attendance at meetings.



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CH Are there any stages that are typical in all audits, regardless of their timing?

SM Typically, an audit will consist of 3 phases which are observable by those outside the audit team – that being the planning, testing and reporting phases.

In order to reduce the time pressures after the year-end balance date, we prefer to perform as much work prior to year-end as is possible. This work is typically the planning of the overall conduct of the audit. During this stage, audit work is focussed at the transactional level and also involves the testing of those internal controls that the auditor wishes to rely upon.

**00:11:20**

CH So let's presume the financial year of a reporting unit has ended. What can we expect the auditor to be doing at this stage?

SM The timing of the post balance date work is entirely dependent on 2 things, firstly:

When the finance function has completed all the relevant reconciliations and disclosures for the financial report, and secondly;

When the COM have scheduled their meetings to endorse the financial report

An audit report is provided at the conclusion of all testing being performed, but only upon the COM signing all declarations forming part of the financial reporting package.

The ROC have produced a great resource in Fact Sheet FS 008, outlining the key reporting dates and deadlines, which we are routinely referring to.

As a basic principle, we try to always attend the COM meeting where the financial report is signed – whether in person or via Teams or Zoom. This gives the members of the COM an opportunity to ask all the questions of us that they need to, in order to satisfy themselves that the audit has been properly conducted and that they can sign off on the financial report.

**00:12:25**

CH Thank you, Stephen. And that's a very handy summary of the audit timetable. We'll provide a link to the factsheet FS 008, that Stephen just mentioned before, on the podcast page of this episode the ROC website.

And if you want to know about the timing of other steps in the financial reporting process – for example, when your financial report is due with the ROC, you can use our online Compliance Calculator on our website.

We spoke earlier about the role of the registered auditor. I want to now take a closer look at how audits are conducted, including how you're given access to documents, and how organisations communicate with you.

Michael, I understand you're currently in the middle of your December end-of-year audits. Can you tell us more about what this involves? And how do you carry out an audit?

MM We have completed the majority of our field work and now have the fun task of pulling this all together!



The reporting process is a collaborative one, which we perform in conjunction with the COM and Finance teams. No one wants a surprise – especially when tight deadlines are often at play. We work very closely with our clients to make sure that all the relevant information we need, is clearly communicated up front – so that we are all on the same page, and so that we have all the information we need, right from the outset.

This includes gaining access to documents that may be a little more sensitive.

**00:13:42**

CH So are you referring to documents belonging to the organisation such as meeting minutes, and legal documents? I presume your clients would expect you to protect the sensitivity of their records...

MM Yes, and whilst we maintain the strictest of independence and confidentiality requirements in our audits, sometimes we need to tread carefully in dealing with external experts such as legal advisers, whom are very protective of maintaining legal professional privilege, which can be challenging, even after authorisation is obtained from the relevant parties

Depending on our clients, our risk-based audit approach will take either a substantive approach (which is the old tick and bash in substantiating transactions and balances) or a controls approach (which identifies those key controls that we intend to rely upon). And sometimes our testing is a mix of the two.

Of course, our basis of testing varies according to the nature of the finance teams – which will be different from client to client: in terms of their size, structure and complexity – with some teams even being outsourced.

CH So do you find clients generally happy to work collaboratively with you? Or can these relationships be difficult to manage?

MM Yes, that's a good question. Our engagement with clients is rarely combative – we all have a job to do and we have longstanding professional business relationships which are founded on the basis of clear communications.

**00:14:55**

CH Have you found the pandemic changed the way you do business? I imagine site visits in certain cities may have been few and far between over the past few years ...

MM COVID certainly has presented some obvious challenges to what we do and how we go about it, with geographical restrictions preventing us from physically attending on site for some clients. Given the LGA based restrictions last year that were put in



place, we had the strange situation where some audit staff were completely unrestricted and others were in the highest level of lockdowns! As a Partner, I was out doing work I would not have normally have done, solely due to my postcode meaning I was free to travel.

COVID has provided us with many great benefits in utilising technology for things like cloud-based accounting systems, scanning and video conferencing. But it has not removed the basic need to be on site to ask the questions live, flicking through folders, and meet the management and officers in engaging directly with them.

So to sum up, we look for the best options that are acceptable and efficient for both the client as well as us in meeting our audit requirements.



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CH The ROC has a range of resources to help organisations with financial reporting, including model financial statements and checklists. I'm interested in finding out whether you use them Michael.

MM Absolutely. The model financial report is a key asset in our audit toolbox and we make sure that all disclosures are updated to align with the template. It has also assisted our clients in obtaining minimal or no questions from the ROC upon filing their financial reports. Similarly, the disclosure checklists are a great means of confirming each year that the financial reporting remains complete and compliant.

There are also numerous tools and resources available on the ROC website that we routinely refer to and it is great to have resources that are geared towards all levels of interaction, whether it is us as the auditor, or for management, officers or finance teams.

So the tools commonly utilised include fact sheets, pro-forma documents and templates, guides, webinars – and don't forget podcasts!

You might not immediately need to use every single thing in there, but it is great to know that they are there and where you need to go to find them when you need them.



00:16:50

CH That's really good to hear, and I'll repeat your point about the diversity of our resources.

We recognise that the organisations we regulate are all different – some have a big membership base and are very well resourced, but we also have some small organisations. There are varying levels of knowledge and experience among staff and officers, and we encourage them to pick and choose from our range of materials,



based on their need and their preference.

Back to the role of an auditor.

Stephen, what are some of the biggest challenges you and your staff experience when undertaking an audit?

SM I think that would have to be the unique situations and circumstances that come up ... all the time! As the saying goes, the only constant is change, and so dealing with those changes can be challenging. This might involve a new IT system, such as payroll, the general ledger or membership – they all have implications for the reliability of information systems that feeds into the financial reporting.

Other changes might include the purchase of a significant asset or the threat of litigation which has a financial impact or disclosure requirement.

Changes in personnel can always be challenging – particularly when it is a key member of the finance team.

This past year or two has clearly been COVID related, particularly in more recent times where restrictions have been eased but quarantine requirements remain in place, meaning that we have been prevented from being on site the morning of an off-site field visit.



00:18:10

CH So your firm Daley & Co offers a range of financial services, including auditing, accounting and tax advice. A registered organisation may engage your firm to audit their financial records AND for separate financial advice.

Now we know that auditor independence is important. So how do you appropriately manage potential conflicts of interest that may arise?

MM Thanks Caroline. A couple of common examples include providing assistance with the preparation of the financial report and the assistance with the calculation of lease liabilities - which has become more prevalent with the adoption of the updated leasing standard recently.

This can be tricky, but definitely more easily navigated where a firm is able to assign separate teams to the other services, under the direction of a Partner that is not involved in the audit.

But under the Code of Ethics for Professional Accountants, there are some things that just cannot be done by the same firm – these typically relate to activities which would normally be expected to be a management function – such as setting policies and strategic direction, authorising transactions and controlling or managing bank accounts or investments.



We have comprehensive formal checklists which every member of the audit team must complete prior to working on an engagement. We have found that the matter of independence is almost always a matter of perception rather than an actual issue, which in itself can be a concern.



00:19:25

CH You spoke earlier about how important it is for the auditor to communicate with their client during an audit. Would you say that communication is also important for identifying and managing conflicts of interest, and maintaining independence?

MM Absolutely, Caroline. We approach this through clear communications and performing detailed assessments to identify any actual issues of independence.

In being the auditor of many reporting units within the same organisation (for example where you have a National and State offices), additional effort is required in managing the inter-entity reporting, which can be considerable – sometimes constituting a majority of the audit effort. Being an identified risk, very strict controls over documenting transactions and inter-entity confirmations are required – by both the client and also in our audit approach.

Other challenges include the situation where reporting units might be related parties, but in fact have differing regulation regimes – such as where the Industrial Relations Act is the relevant State legislation, instead of Registered Organisations Act. Other challenges that we have encountered in the past are clients with transitional registration, dual registration as both State and Federal registration – or where reporting units have different financial year ends!



00:20:31

CH You spoke earlier about the challenges. So what can registered organisations do to support a positive working relationship with their appointed auditor?

Stephen, do you have any advice you can share?

SM The audit process is that last piece of the puzzle and so can be a frustrating one when clients just want to move on!

As we have mentioned earlier, communication is the key. If the auditor can communicate all the things that we need prior to year-end, these can be part of the reconciliation process and its not a lot of extra work required by the finance team.

From a registered organisation's side, be prepared. We greatly appreciate our clients



providing all the information that we have requested on time, so that we are not chasing information.

But equally, be clear on your expectations of your auditor and what you need from them and when. Clearly outline your key deliverable dates and also when the meetings are to be held to review and endorse reporting. This will allow them to set out a timetable that is agreeable to all concerned.

Finally, be prepared to provide timely access to relevant personnel. Again, we really appreciate it when our client's finance teams can free up some time to meet with us and provide answers to our questions.



00:21:41

CH So far in this episode we've talked about the relationship between the reporting unit and their appointed auditor. Once the financial report is lodged with the ROC, we'll assess it against the compliance requirements.

What has been your experience of engaging with the ROC as the regulator?

SM Over the years we have worked quite closely with the ROC and its predecessor. From very early on, we've felt comfortable in communicating directly with them and proactively gaining their input on how to deal with certain unique circumstances that have come up. We do this at an early opportunity and preferably before committing to a position on an untested issue.

This has come up when dealing with complex matters such as dual registration of State and Federal bodies and also when taking over new clients that have had significant issues raised in lodging previous year financial reporting.

Positive, meaningful results have come out of this – quite often saving time and effort in focussing an approach.

The output of the ROC is also very much welcomed by us – such as the various resources that are made available to auditors, officers and management. In attending the various events and information sessions, we have always appreciated the opportunity to be heard and our input has always been welcomed and acted upon.

We can comfortably say that in our experience, this level of engagement is unparalleled with any other regulator that we have worked with.



00:22:59

CH As a small regulator we put a lot of effort into providing a personalised service. We can provide tailored guidance where it's required, and it's nice to hear acknowledgement of that.



So to finish today's episode I want to know how your audit findings are presented and responded to.

Michael, how do you communicate the findings of your audit report, and how do officers ask questions? In particular qualified reports, which may be a difficult but necessary conversation.

MM Typically, the only tangible output of our audit that the outside world gets to see is the audit report. And with most opinions being unqualified, if this were the only output of our work, there wouldn't be much insight or value gained from what we have done during our audit!

Communication for us is continuous and of varying levels of formality, but the overall goal is to avoid surprises – and to communicate to the correct level of management.

Prior to finalising anything, we always make sure all interested parties have had the opportunity to have their say and also to ensure that we have our facts straight. This is particularly the case when there is a potential qualification to the audit opinion or where a significant internal control weakness is identified.



00:24:03

CH So as a communications officer, I'm especially interested in the language of your reports, and how the officers can ask questions about it. We want officers to be engaged in the financial affairs of their organisation, and to achieve this they'll need to understand key financial documents.

So how do you communicate your audit report with the reporting unit?

MM Good question. At the conclusion of our work, we will communicate our key findings and observations in a formal report – and that's in a format that is in plain English – as not all COM members speak accounting!

All reporting is distributed to the COM (with appropriate notice), so they have time to properly consider everything laid before them and to be able to ask all the questions that they need, in order to be comfortable in endorsing the financial report.

We will always attend the concluding meetings of the COM or their designated sub-committees so that we are accountable and approachable, and every question is answered!

CH Thank you so much for your time today, Michael and Stephen. We appreciate your insights into the world of auditing, and the practical guidance that you've shared for registered organisations.



If officers of registered organisations need more help in understanding the financial reporting process, you can access our full range of resources on the ROC website. Or get in touch with us for tailored guidance.

So thank you again for joining us.

MM Our pleasure, thank you.

SM Thank you.



00:25:22

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