



12 April 2019

Mr Brett Bassett
Commissioner
Queensland Building and Construction Commission
GPO Box 5099
Brisbane QLD 4001

By email: Brett.Bassett@qbcc.qld.gov.au

Dear Mr Bassett

Minimum Financial Requirements Report amendments

Thank you for the opportunities to provide feedback on the initial and updated drafts of the Minimum Financial Requirements (MFR) Report and for forwarding to us the revised MFR Report last week, prior to publication.

We note and very much welcome the substantial amendments made to the MFR Report as a result of our and other stakeholders' feedback on the draft MFR Report. Those substantial changes bring the MFR Report much closer to compliance with the Australian Auditing and Assurance Standards (AUASB Standards). We reiterate our support for the QBCC's work in ensuring robust regulation of the building industry in Queensland to protect creditors and consumers and to align the MFR requirements with the requirements of the AUASB Standards and appropriate financial reporting frameworks.

This letter summarises the comments and suggestions that CPA Australia (CPAA) and Chartered Accountants Australia and New Zealand (CA ANZ) provided separately on drafts of the MFR report and related forms, recognizing those matters that have been addressed in the revised MFR Report and other forms issued on 2 April 2019.

We look forward to working with the QBCC to assist in addressing the remaining inconsistencies between the QBCC forms and the AUASB Standards. For example, the inclusion of the "outcome" section, which contains financial information should be provided by the client rather than the qualified accountant, and statements which are already covered by the opinion or conclusion on the MFR Report in Part B, which do not comply with the AUASB Standards.

Our previous emails provided comments in four key areas, which are summarised below along with feedback on the manner in which they have been addressed in the published report or forms and where further amendments are still warranted. We would be pleased to assist the QBCC in determining how to address these matters whilst still meeting the QBCC's regulatory objectives.

1. Structure and content of the MFR

1.1 Matter raised: We recommended that the financial information, the basis of accounting and the licensee's/client's declarations about the financial information be clearly separate to the audit and review reports provided on the financial information. In order to enable the qualified accountant providing the audit or review report (referred to as auditor or assurance practitioner in the AUASB Standards) to comply with the professional obligations in relation to independence, it must be clear that they did not prepare the financial information.

Response: The revised MFR Report, addresses this by separating the financial information, the basis of accounting and the client's (licensee's) declarations into Part A, to be completed by the Client, and the audit and review reports into Part B, to be completed by the Qualified Accountant. In contrast the "outcome" section requires the qualified accountant to provide the financial information, already set out by the client. We recommend deleting this section as it is unnecessary and is not compliant with the AUASB Standards. Additionally, some of the wording in Part A still reads as if the qualified accountant is making the statements, so would benefit from amendment, such as the use of tick boxes, as is done on page 4.

- 1.2 Matter raised: We recommended that the qualified accountant's reports conform with the requirements of the AUASB standards and that the audit and review reports be provided as separate attachments to the MFR Report. This allows the qualified accountant to include the report in a format that complies with the requirements of the AUASB standards, including any modifications to the report or emphasis of matter paragraphs. The qualified accountant could instead provide a statement that they have performed the required audit or review in the body of the MFR report that then refers to the attached audit or review report. We have made further comments on the content and format of the audit and review reports below.

Response: The revised MFR Report keeps the audit and review reports within that Report, which may inhibit adoption of changes to the AUASB Standards in a timely fashion. The revised report allows for a qualified audit opinion or review conclusion, albeit not in the manner provided for in the AUASB Standards. That is, the MFR Report allows for modifications by tick boxes to indicate whether the qualified accountant is either satisfied or not satisfied with the financial information provided by the Client, with a space for an explanation if they are not satisfied. It would be preferable if modifications could be included in the opinion or conclusion itself, with the accountant's reasons included in a "basis for opinion/conclusion paragraph". An example of how alternative wording has been enabled in an approved form by a regulator can be found in APRA approved form auditor's report for registered superannuation entities:
https://www.apra.gov.au/sites/default/files/form_superannuation_approved_audit_report_june_2018.pdf

- 1.3 Matter raised: There should be no need to include a "declaration" from the qualified accountant but instead all matters on which the accountant provides an opinion or conclusion should be covered in the audit or review report. We recommend that the removal of the terms 'verified' and 'verification' in relation to the statement of financial position for each covenantor, as the meaning is unclear. This term does not have a set meaning within the AUASB standards. If an audited or reviewed statement is required, this should be stated explicitly and again, the statement of financial position for each covenantor and the audit or review report should be provided separately. Additionally, these terms should not be used in relation to the statements that the assurance provider is required to make in relation to the Current Ratio and Net Tangible Assets as they are not consistent with performing an audit or a review. These matters should be incorporated into the audit and review reports.

Response: These issues have been addressed in part as the terms "verified" and "verification" have been removed from the MFR Report. As the declaration provided by the client and the qualified accountant's audit or review report cover all of the matters reported by the client, the declaration from the qualified accountant becomes redundant and we suggest removing.

- 1.4 Matter raised: We do not consider that it is appropriate for the qualified accountant to be required to attach 'the evidence sighted in this verification' relating to the licensee's current ratio, net tangible assets and if applicable, related entities net tangible assets and current ratio. The engagement should be an audit or review, and the evidence sighted would be records of the licensee or related party. It should be the responsibility of those parties to provide any information needed by the QBCC not the qualified accountant. Furthermore, the evidence which supports the audit or review may be voluminous, often accessed electronically and copies may not be retained by the qualified accountant, but only referenced in the audit working papers.

Response: Although some of the references to the practitioner attaching evidence were removed, clarification that the documents listed on page 9 represent supporting documentation to be provided by the client is important. This would meet the requirements for evidence contained in Part A, by replacing the words on page 3 regarding attaching the "evidence sighted" with reference to the supporting documents provided, as listed on page 9.

2. Content and format of the audit and review reports

Matter raised: In our email submissions, we noted that there were inconsistencies in the wording of the audit and review reports set out in the draft MFR Report with the requirements of the relevant AUASB standards. We have listed the relevant standards in Appendix 1.

We recommended that both review and auditor's reports needed to:

- 2.1 Conclude on each matter on which the QBCC is seeking assurance. This may include the financial information in the MFR Report, including the licensee's current ratio, net tangible assets and revenue, collectability of related entity loans or assets, related party current ratio and net tangible assets, the licensee's financial statements, each Covenantor's statement of financial position and whether the MFRs have been met at year end.
- 2.2 Reference the financial reporting framework against which the information is to be reviewed or audited.
- 2.3 Confirm the qualified accountant's independence from the client in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- 2.4 Conform with the wording requirements and format set out in the relevant standards and their illustrative examples. In particular, we noted that:
 - o The review report should use the term "conclusion" instead of "opinion" as the latter term only applies to an audit.
 - o The review report needs to include a section on management's responsibilities for the MFR report.
 - o The audit report should reflect the current structure for audit opinions, including the opinion appearing first and a section on the auditor's responsibilities.

Response: With respect to each of the matters raised:

- 2.1 All of the matters to be opined on or concluded by the qualified accountant have been covered by reference in Part B, the qualified accountant's report to the MFR Report. Essentially Part A includes the matters which are audited or reviewed. The inclusion of the section headed "outcome" is unnecessary as the client has already provided this information in Part A and the qualified accountant should not be providing the financial information. The statements listed under the financial information in "outcome" are not required. These matters need to be covered by Part A prepared by the client, on which the qualified accountant provides an opinion or conclusion. In addition, it is the responsibility of the client to attach any "signed financial statements", not that of the auditor, as they are not providing an audit or review report on those financial statements.
- 2.2 Part A provides the financial reporting framework applied.
- 2.3 Whilst compliance with relevant ethical requirements is now required, which is the Code of Ethics for Professional Accountants, a statement regarding the qualified accountant's independence specifically has not been included and should be added.
- 2.4 Wording changes have been made to the review report to use the term "conclusion" and include management's responsibilities. However, the audit and review report wording and order of sections in the report can be further enhanced to reflect the AUASB Standards.

3. Related QBCC Forms

Matter raised: We noted that the MFR includes additional reports which also required amendments, including:

- 3.1 *Production of documents MFR Report* (Attachment 7 of the MFR), which referenced the "Australian Accounting and Auditing Standards" instead of the relevant AUASB Standards and suggested that the independent accountant has prepared the financial information, instead of the client/licensee.
- 3.2 *Statement of Financial Position – Covenantors* (Attachment 5 of the MFR) is required to be signed by an accepted independent accountant but it is not clear what their signature is signifying. The client/licensee should sign a declaration about the financial report and the accountant should provide a separate review or auditor's report.

Response: We note the following changes have been made with respect to these reports issued by the QBCC on 2 April but some inconsistencies remain:

- 3.1 Production of documents form appears to have been incorporated into the MFR Report, which has been discussed above. We would be grateful if you could confirm this is the case.
- 3.2 [Covenantor's Statement of Financial Position](#) has clarified the accountant's reporting requirement by including a review report. The report would also benefit from a clearer separation of the financial information prepared by the Covenantor from the review report provided by the qualified accountant.

In addition, we note the following forms contain inconsistencies which we suggest are addressed:

- [Deed of Covenant and Assurance](#) uses the term "assurance" in the title and may be unnecessary and cause confusion as the form does not require an assurance engagement under the AUASB Standards.
- [Minimum Financial Requirements Annual Reporting Form – Category 4-7](#) which states that a person, not necessarily an officer of the licensee, "verifies" the financial statements and makes "all enquiries I consider appropriate and declare that the information contained in the above documents is correct and represents a true and fair view of the licensee's financial position". In addition, the financial statements are prepared by the "accountant/auditor". The roles of the licensee and the accountant/ auditor need to be consistent with the position now reflected in the MFR Report, in that the Licensee needs to prepare and take responsibility for the financial statements and the qualified accountant needs to review or audit those financial statements.

Overall, we recommend consistency in approach between all QBCC forms and the AUASB Standards, particularly in the roles of each party.

4. Consultation process

We encourage the QBCC to consider their consultation process on any future changes. For consultation to be effective in helping the QBCC achieve its desired regulatory outcome, stakeholders need sufficient time to consider any proposals, seek feedback from those they represent and provide this feedback to the QBCC. In our dealings with other regulators, the consultation period is usually four to eight weeks.

We would be pleased to discuss our comments above or review any updated drafts of the MFR Report and related forms. Please contact Claire Grayston, Policy Adviser – Audit & Assurance, CPA Australia (claire.grayston@cpaaustralia.com.au) or Amir Ghandar, Leader, Reporting and Assurance, Chartered Accountants Australia and New Zealand (amir.ghandar@charteredaccountantsanz.com) for further assistance.

Yours sincerely



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Appendix 1

Applicable auditing and assurance standards issued by the AUASB

Standards applicable to review engagement for the MFR:

- [ASRE 2405 Review of Historical Financial Information Other than a Financial Report](#) for review of financial information in the MFR Report only;
- [ASRE 2400 Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity](#) if a financial report is also provided in addition to the financial information in the MFR Report; and
- [ASAE 3100 Compliance Engagements](#) for review of compliance with the MFRs.

Standards applicable to audit engagement for the MFR:

- [ASA 805 Special Considerations-Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement \(Compiled\)](#) for audit of financial information in the MFR Report only;
- [ASA 800 Special Considerations-Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks \(Compiled\)](#) if a financial report is also provided in addition to the financial information in the MFR Report; and
- [ASAE 3100 Compliance Engagements](#) for audit of compliance with the MFRs.