



FRC AUDIT QUALITY ACTION PLAN

UPDATED AUGUST 2019

OVERARCHING OBJECTIVES

- To assist improvement in the outcomes of future ASIC Audit Inspection Programs of financial reports of public interest entities, particularly through a collaborative approach involving all stakeholders;
- To help improve audit quality in the for-profit private sector, the not-for-profit private sector and the public sector; and
- To enhance confidence in financial reports, in order to contribute to stakeholder confidence in the Australian economy, including its capital markets.

SPECIFIC OBJECTIVES

1 - To engage with users of financial reports to better understand their views on audit quality.

Action:

- to conduct a survey of Audit Committee Chairs (ACCs), to gather their views on audit quality and suggestions for improvement;

Status:

A survey was carried out in 2018, which was a joint initiative of the FRC and the AUASB and replicated the selected questions from a survey of this nature carried out regularly by the United Kingdom's FRC.

The survey was sent to ACCs of the ASX top 300 companies with the assistance of ASIC, the Australian Public Policy Committee (APPC – made up of representatives from the Big 6 accounting firms and the accounting bodies) and the Big 4 accounting firms. There were 91 responses representing a 30 per cent response rate.

Overall, the results indicate that ACCs are very satisfied with the quality of their auditors. The responses included recommendations for improved practices by both auditors and audit committees.

The full report is available [on the FRC website](#).

It is the intention to conduct a survey of this nature every, say, 2 years and to compare results over time. It is intended that this survey be replicated in November 2019.

Action:

- to conduct a survey of the investor community to gather their views on audit quality and suggestions for improvement;

Status:

A survey of this nature was carried out in 2018 by CFA Institute (a global association of investment professionals). There were 284 responses from predominately portfolio managers and research analysts (both buy side and sell side). Responses were from America (55%), EMEA (27%) and Asia Pacific (18%). The detailed report on findings has been analysed by the FRC.

A similar survey was carried out by the FRC and the AUASB in late 2018 with the assistance of FSC, ACSI, AIST, APRA and CRUF (Corporate Reporting Users Forum) for its distribution to investors. There were 47 responses and final report was distributed in April 2019. Overall, the results revealed that 60 per cent considered that audit quality was above average – however 33 per cent considered that further action is required.

Action:

- to conduct a survey of Chief Financial Officers to gather views on audit quality and suggestions for improvement;

Status:

A survey was distributed in September 2019 with the assistance of the Group of 100.

Action:

- to explore initiatives and tools that can assist audit committees to contribute to assessing and improving audit quality e.g. guidance to be used when engaging with auditors and the reporting by audit committees of their activities in the annual report;

Status:

The International Organisation of Securities Commissions (IOSCO) issued in January 2019 its [IOSCO Report on Good Practices for Audit Committees Supporting Audit Quality](#). This Report was discussed at the FRC Meeting in February 2019 and will form the basis with the ACC Survey Report, of further communications and initiatives with Audit Committees.

It is the FRC's view that Audit Committees can contribute significantly to improvements in audit quality, as well as other elements of the financial reporting process. Accordingly, it is the intention that initiatives that Audit Committees might undertake will continuously be considered by the FRC. The FRC will also continuously consider the initiatives preparers might take.

Action:

- to investigate existing definitions and metrics of audit quality in Australia and overseas.

Status:

A review of professional and academic literature (international) was carried out by FRC in 2018 which identified a range of Audit Quality Indicators (over 30), with various degrees of measurability. A summary of the literature was prepared and analysed by the FRC. The Report of the Parliamentary Joint Committee on Corporations and Financial Services in February 2019 recommended that ASIC devise and conduct,

alongside or within its current Audit Inspection Program, a study which will generate results which are comparable over time to reflect changes in audit quality.

ASIC are preparing such a paper to which the FRC will contribute, during the second half of 2019.

2 - To undertake appropriate actions on the learnings of the ASIC Inspection Program findings and to contribute to the continuous development of best practice programs to assess audit quality.

Action:

- to understand the implications of the findings of the ASIC Inspection Program, and to work with ASIC and the relevant parties, (for example, the AUASB where additional guidance may assist auditors to meet standards) to achieve further improvements;

Status:

With the support of the FRC, the AUASB and ASIC have met and are working through a list of areas where more guidance may be required in the auditing standards. The AUASB has also met with each of the Big 6 accounting firms to understand areas where they believe more guidance may be required. Based on this, the AUASB issued a revised ASA 540 'Auditing Accounting Estimates and Related Disclosures'.

The AUASB is also updating:

- *Guidance Statement 005 'Using the Work of a Management's Expert';*
- *ASA 315 'Identifying and Assessing Risks of Material Misstatement'; and*
- *Its suite of Quality Management Standards.*

Such meetings are now an ongoing process.

Action:

- to support a benchmarking to other international regulator and professional practice programs assessing audit quality.

Status:

ASIC continually benchmarks its Audit Inspection Program with the program conducted by other audit regulators. However, much of the information obtained from other regulators has been provided to ASIC on a confidential basis. That benchmarking process is facilitated by participation in IFIAR, individual discussions with major regulators, secondments of staff from other regulators and joint inspections with the US and Canadian regulators.

ASIC considers such information on an ongoing basis to determine whether changes are required to the ASIC Audit Inspection Program.

The accounting bodies are each a member of IFAC and must comply with the 'Statement of Member Obligations 1 Quality Assurance' which sets out the

requirements of an IFAC member body with respect to quality assurance review systems for its members who perform audits, review, other assurance and related services engagement of financial statements. This is supported by the 'Quality Assurance (QA) for Audit Good Practice Guide' prepared by ICAEW, developed in partnership with the Asian Development Bank and CAPA.

The FRC Chair met in July 2019 with the CEOs of each of the accounting bodies (and with ASIC) and asked that the three accounting bodies initiate collaboration with each other and with ASIC to enable sharing of best practices of audit inspection programs. That does not mean that each inspection program will be identical.

3 - To engage with professional accounting bodies, firms providing audit services, and other stakeholders to support new initiatives that improve audit quality.

Action:

- to support all relevant stakeholders with their initiatives into audit quality including any research on the impact of audit quality initiatives implemented in other countries;

Status:

The FRC has regular discussions with the Big 4 accounting firms, APPC and accounting bodies on audit quality.

The Big 4 accounting firms are all members of their respective global firm networks. The global firms implement initiatives which apply to their member firms in Australia, as well as conducting internal quality assurance programs to assess compliance by member firms.

The FRC is not privy to all such initiatives and internal quality assurance program results, but have discussed with the firms the concern over ASIC audit quality inspection results.

The FRC is confident that the leadership of the Big 4 accounting firms in Australia are responding appropriately to the concerns over audit quality. The largest firms are demonstrating clear commitment to improve audit quality. Those firms are implementing robust accountability mechanisms, undertaking extensive communication and education, and conducting detailed analysis of root causes followed by implementation of corrective action.

The accounting firms in Australia, to the extent permitted by anti-competition laws, are collaborating and sharing best practices for the benefit of the accounting profession. In particular, the APPC, CA ANZ and CPA have in 2019 jointly produced two publications:

- [An External Auditor's Guide to Improving Audit Quality Using Root Cause Analysis](#). This is a non-authoritative guide developed by CA ANZ that defines root cause analysis (RCA) and explains how audit practitioners can use it to identify and address the root causes of review and inspection findings.
It is available on both CA ANZ and CPA Australia websites.

- [An External Auditor's Guide to Improving Audit Quality Using an Individual Recognition and Accountability Framework](#). This is a non-authoritative guide developed by CPA Australia that describes best practices in developing a recognition and accountability framework for audit practice leaders, audit engagement leaders and audit engagement quality control reviewers.

It is available on both CA ANZ and CPA Australia websites.

Workshops have been held by both accounting bodies to share the contents of the above publications with the accounting profession, particularly small and medium sized firms.

Action:

- to continue to emphasise to the CEOs of the professional accounting bodies and firms providing audit services the need for timely and effective action;

Status:

Refer to item above.

Action:

- to encourage greater collaboration and sharing of best practice between all relevant stakeholders to achieve improvements in audit quality e.g. sharing the results of root cause analysis of audit quality issues.

Status:

Refer to item above.