



## FRC AUDIT QUALITY ACTION PLAN

SEPTEMBER 2018

### 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, 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](#).*

*The recommendations will also be compared with the responses to the International Organisation of Securities Commissions (IOSCO) Consultation Report on 'Good Practices for Audit Committees Supporting Audit Quality'. The final international report is due to be released in late 2018, and the FRC will consider what further action may be required.*

*It is the intention to conduct a survey of this nature every, say, 2 years and to compare results over time.*

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. It is proposed that a similar survey is carried out in Australia in October 2018, after the 30 June 2018 reporting season. Learnings from the Audit Committee Chair survey will be taken into account. An appropriate method of distribution is being discussed with FSC, ACSI and the CRUF (Corporate Reporting Users Forum).*

*It is also the intention to conduct a survey of this nature every, say, 2 years and to compare results over time.*

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:*

*IOSCO issued a Consultation Report on 'Good Practices for Audit Committees in Supporting Audit Quality' in April 2018 with responses required by 24 July 2018. The results of this consultation are due in late 2018. The FRC will consider recommendations, or action after it has reviewed the results.*

*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 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 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. This review will provide support for consideration of further actions by the FRC.*

*In particular, the FRC will endeavour to obtain from various sources Audit Quality Indicators that are measured and are available, and consider the relevance they have to further action.*

**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.*

*Such meetings will become 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 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 accounting firms meet with ASIC on an ongoing basis and best practice initiatives are shared.*

**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. Lead Assurance Partners of the Big 4 and Chair of the APPC were invited to present to the FRC meeting on 15 June 2018 on collaborative best practice initiatives.*

*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 has supported the ACC Survey previously mentioned as well as two other key priorities:*

- individual recognition and accountability frameworks for audit quality – this project, led by CPA Australia, is aimed at understanding the best practices in accountability frameworks for audit practice leaders, audit engagement partners and engagement quality control reviewers; and*
- root cause analysis – this project, led by Chartered Accountants ANZ, is aimed at understanding best practices for an effective root cause analysis process and to drive improvement in the quality of audit engagements.*

*The aim also is to scale these best practice learnings from both projects to small and medium sized firms.*

*The FRC will monitor outputs from the above processes, in particular the manner in which they are shared across the accounting profession.*

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.*