



FRC AUDIT QUALITY ACTION PLAN

UPDATED APRIL 2020

SURVEY OF USERS

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 (35 per cent considered their external auditor to be 'excellent' and 54 per cent responded 'above average'). The responses included recommendations for improved practices by both auditors and audit committees.

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

The results of this survey were included in ASIC's Report 649 ['Audit quality measures, indicators and other information: 2018-19'](#) released in December 2019.

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 2020.

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 audit quality was average.

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

The results of this survey were included in ASIC's Report 649 'Audit quality measures, indicators and other information: 2018-19' released in December 2019.

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 2020.

CA ANZ carried out a survey which captured the views of just over one thousand retail investors in Australia. Results showed that 87 per cent of retail investors have confidence in the audited financial reports produced by Australian public companies.

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, to CFOs of the ASX top 300 companies.

The survey response was disappointingly low at 27 responses. Of those, 25 of the 27 responded that their external auditor was 'above average or 'excellent'. The survey results did not raise any significant concerns over audit quality.

AUDIT INSPECTION PROGRAMS

Action:

- **to understand the implications of the findings of the ASIC Inspection Program;**

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 or revisions made to the auditing standards.

The AUASB has also met with each of the Big 6 accounting firms to understand similar concerns.

As a result the AUASB is updating Guidance Statement 005 'Using the Work of Management's Expert'.

The AUASB has also issued a revised ASA 540 'Auditing Accounting Estimates and Related Disclosures' which provides updated requirements and guidance for the auditing of estimates which is an area where ASIC has the highest level of findings when undertaking its inspection of audit files.

ASA 315 'Identifying and Assessing Risks of Material Misstatement' has also been recently reissued with the objective of improving audit quality. In addition the IAASB is currently in the process of updating the Quality Management Standards to improve audit quality, and the AUASB will adopt these in Australia.

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, reviews, other assurance and related services engagements 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.

AUDIT QUALITY INITIATIVES

Action:

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

Status:

The FRC has regular discussions with the Big 4 accounting firms, APPC and the 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 largest six accounting firms voluntarily published on their own web sites the firm's individual ASIC audit inspection reports for 2018-19.

The accounting firms in Australia, to the extent permitted by anti-competition laws, are also 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.

The International Organisation of Securities Commissions (IOSCO) issued in January 2019 its [IOSCO Report on Good Practices for Audit Committees Supporting Audit Quality](#).

This document complements the publication 'Audit Committees – A Guide to Good Practice – 3rd edition' produced jointly by AUASB, AICD and IIA.

The accounting bodies conduct a wide range of education and communication initiatives and produce a variety of guidance materials related to audit quality. The FRC meets with the accounting bodies on a regular basis and is confident that they are demonstrating a clear commitment to improve audit quality.

On 1 August 2019 the Senate referred an inquiry into the regulation of auditing in Australia to the Parliamentary Joint Committee on Corporation and Financial Services for report by 1 March 2020. This deadline has now been extended by six months.

There were 110 submissions received. Public hearings were held on 19 November 2019, 29 November 2019, 9 December 2019 and 7 February 2020. The FRC has reviewed the submissions and the transcripts of the public hearings. The FRC, AASB and AUASB made individual submission and attended a public hearing on 29 November 2019.

The FRC is currently awaiting the recommendations of the PJC inquiry to determine further action that may be required.

The FRC is also monitoring developments in the UK and are awaiting the UK government's response to the report of the CMA, the Kingman Report and the Brydon Report.

MEASURES OF AUDIT QUALITY

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 released in December 2019 Report 649 'Audit quality measures, indicators and other information: 2018-19' which provided a broad group of audit quality measures, indicators and other information to supplement its audit inspection findings.

REVIEW OF ADEQUACY OF AUDITOR DISCIPLINARY FUNCTIONS

Action:

- to review the adequacy of repercussions for auditors of poor audit quality;

Status:

The Report of the Parliamentary Joint Committee on Corporations and Financial Services in 2018 recommended that the adequacy of auditor disciplinary functions be reviewed. The Government requested the FRC conduct the review.

The FRC's Review was conducted over a period of four months, using evidence provided by the Australian Securities and Investments Commission (ASIC), the Companies Auditors Disciplinary Board (CADB), Chartered Accountants Australia and New Zealand (CA ANZ), CPA Australia and the Institute of Public Accountants (IPA).

[The FRC's report Auditor Disciplinary Processes: Review](#) was presented to the Government in March 2019. It included 18 recommendations relating to:

- *ASIC detection, investigation and enforcement processes, including that ASIC outline how their 'why not litigate' enforcement strategy will apply to misconduct by Registered Company Auditors (RCAs);*
- *CADB processes, including adopting a less formal and more timely approach to the carriage of CADB matters;*
- *ASIC's Audit Inspection Program, including publishing the results of audit inspections in greater detail, in particular naming firms, and for ASIC to be given the power to compel remediation of defective audits; and*
- *Professional accounting bodies processes, including formalising processes for advising each other and the FRC of their disciplinary proceedings.*

In its response the Government agreed or supported all but one of the recommendations.

PJC INTERIM RECOMMENDATIONS (2020);

The Parliamentary Joint Committee (PJC) on Corporations and Financial Services issued Regulation of Auditing in Australia: Interim Report (RAAIR) in February 2020.

Specific recommendations applicable to the FRC are set out below;

Recommendation 3

4.145 The committee recommends that the Financial Reporting Council, in partnership with ASIC, by the end of the 2020–21 financial year, oversee consultation, development and introduction under Australian standards of:

- defined categories and associated fee disclosure requirements in relation to audit and non-audit services; and
- a list of non-audit services that audit firms are explicitly prohibited from providing to an audited entity.

Recommendation 6

4.151 The committee recommends that the Financial Reporting Council, by the end of the 2020–21 financial year, oversee the revision and implementation of Australian standards to require audited entities to disclose auditor tenure in annual financial reports. Such disclosure should include both the length of tenure of the entity's external auditor, and of the lead audit partner.

Recommendation 8

5.64 The committee recommends that the Financial Reporting Council oversee a formal review, to report by the end of the 2020–21 financial year, of the sufficiency and effectiveness of reporting requirements under the Australian standards in relation to:

- the prevention and detection of fraud; and
- management's assessment of going concern.

Recommendation 9

5.67 The committee recommends that the Corporations Act 2001 be amended such that entities required to have their financial reports audited under the Act must establish and maintain an internal controls framework for financial reporting. In addition, such amendments should require that:

- management evaluate and annually report on the effectiveness of the entity's internal control framework; and
- the external auditor report on management's assessment of the entity's internal control framework.