



FRC AUDIT QUALITY ACTION PLAN

Objective: Identify initiatives to support improvement in audit quality in Australia.

1. Identify initiatives to respond to ASIC's Inspection Findings

Actions to date:

- Revised Guidance Statement 5 *Evaluating the Appropriateness of a Management's Expert's Work* issued.
- Revised ASA 540 *Auditing Accounting Estimates and Related Disclosures* has been released and is now effective. Implementation support has been released.
- Revised ASA 315 *Identifying and Assessing the Risks of Material Misstatement* to require a more robust risk assessment process released and is effective 30 June 2022. Implementation support will be provided.
- Revised Quality Management Standards (QMS) have been issued and are effective 31 December 2022. Implementation support will be provided.
- ASIC have raised substantive testing methods (sampling and substantive analytical procedures) as possibilities of standards to revise.
- ASIC continually benchmark and review its Audit Inspection Program with the programs conducted by other regulators.

Future actions:

- Continue discussions with ASIC and the firms to:
 - identify where guidance or amendments to standards will assist in reducing findings;
 - determine how reporting of Audit Quality Indicators (AQI) will assist communication.
- Release implementation support for ASA 315 and QMS.

2. Implement the recommendations of the PJC Inquiry into Regulation of Auditing

To work with responsible standard-setting and regulatory bodies to implement the recommendations relevant to the FRC and AUASB. The Australian government is yet to respond to the report however planning for implementation of some recommendations is already in progress. Refer to Appendix 1 for the recommendations applicable to the FRC and AUASB.

Actions to date:

- The FRC PJC Inquiry Working Group consisting of representatives from the FRC, AUASB, AASB, APESB, and ASIC has been meeting to plan how to implement the recommendations in a co-ordinated manner. Refer to Appendix 1 for more detail.

Future actions:

- Continue the FRC PJC Inquiry Working Group meetings.
- Work with the AICD and ASIC on guidance / communication to Audit Committees on their monitoring of audit quality and disclosure of audit tenure.
- Monitor IAASB's projects on going concern and fraud and continue to consider if other actions are required in Australia.

3. Work with ASIC, Accounting Firms and Professional Bodies to define and report on Audit Quality Indicators

Actions to date:

- The Report of the PJC 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 have reported some AQIs in Report 649 (2019) and 678 (220) *Audit Quality Measures, Indicators and Other Information* which accompanied their report on the annual Audit Inspection Program. ASIC have indicated they will not issue this report in 2021 due to concerns that this report was not widely read and was time consuming to produce, however are considering including some limited AQIs in their Audit Inspection Program report.
- A review of professional and academic literature was conducted by the FRC in 2018 which identified a range of AQIs (over 30), with various degrees of measurability. A summary of the literature was prepared and analysed by the FRC.

Future actions:

- Work with ASIC and the firms to obtain consensus on what AQI will be reported and by whom. Options for reporting AQIs are by ASIC, the FRC, the AUASB or by the firms in their Transparency Reports.

4. Obtain views of users of audit services on audit quality

Actions to date:*Audit Committee Chairs*

- A survey conducted in 2018 and repeated in 2021, which was a joint initiative of the FRC and the AUASB and replicated the selected questions from a survey of this nature carried out previously by the United Kingdom's FRC.

- The survey was sent to ACCs with the assistance of ASIC and the Australian Public Policy Committee (APPC – made up of representatives from the Big 6 accounting firms and the accounting bodies).
- Overall, the results indicate that ACCs are very satisfied with the quality of their auditors (in the 2021 survey 94% considered their external auditor to be ‘above average’ or ‘excellent’ which is up from 92% in 2018).
- The reports are available on the FRC and AUASB websites and the results were included in ASIC’s Report 649 (2019) and 678 (2020) *Audit Quality Measures, Indicators and Other Information*.

Investors

- The FRC and the AUASB conducted a survey of Professional Investors in late 2018 with the assistance of FSC, ACSI, AIST, APRA and CRUF (Corporate Reporting Users Forum) for its distribution to investors. The survey was a replication of a survey conducted by the CFA Institute (a global association of investment professionals). 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 *Audit Quality in Australia: The Perspectives of Professional Investors* is available on the FRC and AUASB websites.
- The results of FRC and AUASB’s survey were included in ASIC’s Report 649 *Audit quality measures, indicators and other information*.
- This survey was repeated in 2021 however the response rate was too low to provide meaningful information. Due to the low response rate this survey will not be repeated.
- CA ANZ issued *Investor Confidence Survey Report* in 2020 and 2021 which captured the views of approximately a thousand retail investors in Australia. Results for 2021 showed that 91 per cent (up slightly from 87 per cent Of 2020) of retail investors have confidence in the audited financial reports produced by Australian public companies.

Chief Financial Officers

- A survey was conducted 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. Due to the low response rate this survey will not be repeated.

Future actions:

- The ACC survey will be conducted every two years to enable the tracking of views over time.

5. To review the adequacy of repercussions for auditors of poor audit quality

Actions to date:

The Report of the PJC 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.

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

Actions to date:

- The accounting firms and professional bodies, collaborated and shared best practices for the benefit of the accounting profession and developed the following documents:
 - *An External Auditor's Guide to Improving Audit Quality Using Root Cause Analysis.*
 - *An External Auditor's Guide to Improving Audit Quality Using an Individual Recognition and Accountability Framework.*
- 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.
- 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 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.

Future actions:

- Work with ASIC, Professional bodies and AICD on future initiatives to promote audit quality with the director community.

PJC RECOMMENDATIONS RELEVANT TO THE FRC AND AUASB

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.

Status

- The AASB have a project to determine the defined categories and disclosure requirements in relation to audit and non-audit services which includes benchmarking how other jurisdictions define and the associated fee disclosure requirements. The AASB will issue an exposure draft once a government response is received.
- The IESBA have made amendments to the International Code in relation to prohibited non-audit services. Based on this the APESB have issued an ED with proposed amendments to the Australian code ie. APES 110 including a list of non-audit services and defined categories of audit and non-audit services.

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.

Status

- The FRC, AUASB, AASB and AICD have been considering where this may be disclosed and by which entities. It has been agreed to not amend any standards until a government response is received.
- As an interim measure the AICD, AUASB the Accounting Professional Bodies are considering issuing non-authoritative guidance to Audit Committees on their responsibility in relation to monitoring audit quality including recommending that disclosure is made on this as well as audit tenure

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.

Status

- The current reporting requirements are consistent with those of the International Accounting Standards Board and the International Auditing and Assurance Standards Board (IAASB).
- The IAASB has recently commenced projects on both these topics, however they will not be completed for several years.
- The IASB do not have going concern on their agenda however the AASB are preparing a thought leadership paper exploring how the reporting requirements may be enhanced, and to request this be prioritised by the IASB.