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AUASB RESEARCH REPORT 9

PERCEPTIONS OF AUDIT QUALITY BY AUDIT COMMITTEE CHAIRS IN AUSTRALIA

Research informing the FRC's and AUASB's views of
audit quality

December 2022

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Foreword

Audit quality is integral to the operation of the financial reporting system. Audit Committee Chairs (ACCs) play an important role in the oversight of financial reporting and the performance and quality of their external auditor. Therefore, their perspectives are vital and a key indicator of audit quality in Australia.

In recognition of this, the FRC – in conjunction with the AUASB – commissioned independent research to gather perspectives on audit quality from a sample of ACCs. This builds on previously conducted surveys of ACCs (one in [2018](#) and another in [2020](#)). This report has been authored by the independent researchers and details the feedback they received.

Pleasingly and importantly ACCs remain very satisfied with the quality of their external auditor.

In addition, this research gathered in depth feedback on the matters that influence ACC's views, and how they support audit quality. We hope this report assists audit committees and auditors as they work together with the goal of continuous improvement and enhanced audit quality, and ultimately high-quality financial reporting.

This research also explored views on assurance over sustainability reporting which will inform us going forward as this reporting and related assurance further evolves in Australia.

We thank the ACCs that generously gave us their time and for sharing their views and experiences.

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Executive Summary

It was determined by the FRC and AUASB to undertake in-depth interviews of Audit Committee chairs (ACCs) to get their insights on audit quality. Interviews were held with 21 ACCs of ASX300 companies that in total chaired 34 ASX 300 companies (23 ASX-100 companies and 11 ASX-101–300 companies). Audits for these 34 companies were undertaken by Big 4 audit firms, although many of the ACCs did have experience with non-Big 4 firms on other ACs they had previously or presently served on.

Areas covered included what ACCs consider to be good audit quality, do ACCs have any concerns about audit quality, factors involved in determining choice of auditor, views on ASIC inspection reports, ACCs engagement with the auditor, the process by which the AC assessed audit quality, and ACC overall views of audit quality. Issues associated with assurance of sustainability reporting were also explored.

Some of the major issues identified of interest for the FRC and AUASB in each area covered by the interviews were:

1. What do audit committee ACCs consider to be good audit quality?

ACCs referred to a wide range of factors which can be broadly categorised as (a) complete the audit consistent with accounting, audit and ethical standards; (b) the relationship and engagement between the engagement partner and the AC, particularly the ACC; (c) capacity of the audit team, particularly the engagement/signing partner(s); and (d) the audit firm and its reputation.

Some ACCs referred to important attributes of the engagement partner while others more generally referred to attributes of the whole audit team but still with an emphasis on the engagement partner. Particular attributes included having knowledge across the technical material (including disclosures, regulation), speaking from a position of competency, a comprehensive understanding of the business and the industry. Personal attributes of the partner included independence and courage to call out issues, and pragmatism. The above attributes of the engagement partner were seen as critical and, in fact, were sometimes discussed as the main signal of quality.

2. Do ACCs have any concerns on audit quality or the audit market as a whole?

It was unanimous among the ACCs that there was a high level of satisfaction with the quality of the audits they were involved with. It was pointed out by a number of ACCs that if they were unhappy with any aspect of the quality, that would be addressed quickly by a range of actions starting with the partner-in-charge or managing partner of the firm and, if necessary, putting the audit out to tender.

The Big 4 were seen by nearly all ACCs as having the skill set, global scale and experience to deal with an organisation of the scale and global operations of their company. In addition to the present auditor, many ACCs suggested they were using two or more other Big 4 firms to provide other services (e.g. internal audit, regulatory, tax, consulting). So often they only had the choice between the incumbent auditor and one other if the audit was put to tender.

In the above context there were concerns about the imposition of an audit firm rotation policy. ACCs raised the point that where they were using the other three Big 4 firms for other services and so in order for these firms to tender, they needed to go through a cleansing process; 'go away and make yourself independent' and therefore the company would be deprived of services for a number of years for the firm to qualify as being independent.

Also related to the auditor firm rotation possibility, there were also a few suggestions that some firms would be reluctant to give up income from other services to tender for the audit. In these cases, the ACCs still considered the audit to be the 'prized thing to win' or such behaviour would not be



considered appropriate by some ACCs. However, in some cases a company may even rule out a particular firm because they greatly value the work in another particular area and the cost is too high to change a number of suppliers.

The role of ASIC inspections impacting audit quality was raised as a concern. While all saw the need for an independent inspection process, issues around the conduct of the process were raised. These included low value compliance, pressure by regulators leading to a 'tick the box mentality', criticism of the way results are disclosed, and use of small non-generalisable sample sizes. There was specific reference to discussions with auditors about the inspection process including that allowance is not made for differences in judgments as ASIC always believes they are correct.

A small number of ACCs raised concerns that auditing standards have become more rules based over the last 20 years which reduces the focus on intuition and judgment, and that auditing standards have not kept up with technology.

A number of ACCs raised concerns about the challenges of auditing firms attracting and retaining high quality staff. These issues were raised in discussions about competition for new talent and also in discussion of the adverse publicity related to ASIC findings.

Some insights were given on the impact of climate change and sustainability on business models. In conjunction was the issue of the effects of those changes on audit obligations that will be placed on external auditors and ensuring that the audit firms have the capabilities.

3. How often do ACCs consider appointment of a new auditor?

The vast majority of ACCs referred to an annual assessment of the audit firm/auditors but generally this did not lead to a change of auditor unless there were some concerns about the quality of the audit which was not the case in the previous year for any of our interviewees.

ACCs outlined three key circumstances where the audit would be put out to tender. First, the company was not getting the level of audit quality, the expertise or the level of service they expected. Second, long tenure was a reason some ACCs provided for going to tender. This could be in the 10-year plus time horizon or in some cases it was much longer and the ACC decided 'the time was right'. Third, a smaller group saw the need to make sure the audit was still contemporary.

4. What factors do ACCs take into consideration in the appointment of a new auditor?

The most frequent factors were the reputation of the audit firm, the qualities of the lead engagement partner, the audit team as a whole, and the overall quality of the audit (which was often a combination of the above three).

The reputation of the firm often was determined on the basis of interaction with different firms as well as external information including ASIC reports and press reports. This reputation included credibility of the audit firm, adequate size, expertise, and standing in the industry.

The quality of the lead engagement partner included the partner's capability, industry experience, forthrightness, and cultural fit/personality.

This discussion sometimes referred to the audit team as a whole rather than just the engagement partner, and included the team meeting expectations, their expertise, their coverage and gender representation on the team.



5. ASIC inspection reports

The general sentiment of the ACCs was that some form of oversight and inspection process is a good thing. The positive aspects of the inspection process were that it is likely to improve overall audit quality, it was useful at the time of the tender process, it is a useful discussion point to have with the incumbent audit firm, and that it gives another layer of comfort.

However, many were critical of the inspection process and its subsequent reporting by ASIC and financial journalists. Criticisms of the inspection process focussed on the sample selection and the generalising from a very small sample of high-risk audits, and whether ASIC had the resources and staff to make the judgments they do on specialised complex areas, with ACCs commonly expressing more confidence in the judgements of specialists they engaged than the ASIC staff. There were a number of strong criticisms that this resulted in a rating system of the firms based on a small non-representative sample.

Concerns were raised about the effect of this reporting process on the standing of the profession and the ability to attract top high-quality staff to the profession.

6. Do ACCs see benefits in disclosing tenure of audit firms?

The vast majority of interviewees responded positively to disclosing the tenure of the audit firm, with only a few disagreeing. However, the sentiment was more that the disclosure would generally not do any harm rather than providing specific benefits.

There was a range of options as to where the information should be presented. Almost all suggested that this information be provided by the company with the most common suggestion being in the notes to the financials (e.g. Auditor Remuneration Note). The next most common suggestion was that it be placed in the Corporate Governance Statement. There were a few suggestions that it be in the Directors' Report.

7. Type and frequency of ACCs engagement with the auditor

Almost all ACCs referred to a pre-meeting with the auditor before every audit committee meeting. These meetings were scheduled in the diary usually for the week before audit committee meetings, after the audit committee papers are out.

All ACCs expressed the need for and current occurrence of effective and open lines of communication. Outside the pre-meetings the ability of either the ACC or the audit partner to contact the other party at any time was emphasised.

There were some comments that in the current environment the relationship between the ACC and the audit partner has become less formal (but not less independent or professional).

Management are unlikely to attend any of the meetings between the auditor and ACC outside AC meetings. For AC meetings, management will commonly attend but there will always be time for the auditor to express views to the AC without management present.

In response to an open-ended question, the most common words used to describe the ACC's relationship with the audit partner were open (10 of 21 instances) followed by very-good, professional, candid and respectful (5 of 21 instances each).



8. Processes for assessing audit quality at completion of the audit

The processes for assessing audit quality ranged from a very formal and structured one to a less structured approach.

The very formal and structured approaches included distributing a questionnaire to (or surveys initiated by) auditors and management and explicit consideration of this feedback at an audit committee meeting, under a specific audit committee agenda item. In some cases, there was a survey distributed to each member of the audit committee (or entire Board of Directors) by management for compilation and consideration by the audit committee.

The issues that are mainly covered in discussion of ACC's perceptions of audit quality were similar to the audit quality issues raised earlier by ACCs.

Audit quality assessment processes are evolving. Those running a fairly informal process of assessment of the quality of the auditor identified a likelihood of the process becoming more formal, either through perceived benefits of a more structured approach or possible imposition of future requirements.

Most ACCs did not see a need for further guidance in the form of lists of audit quality indicators. The views were expressed that such lists did not help inform experienced ACCs and ran the risk of leading to a boilerplate assessment. Some saw such lists such as the one recently produced by AICD-AUASB as useful in seeing if there were any new ideas to inform their process.

9. Areas where ACCs consider that their auditors perform well

The main area identified by ACCs was providing insights on the business to the AC, both how it operates and from best practice approaches and disclosures. Their use of experts in areas of critical judgment, working well with management to resolve issues, and quality of communication were other key areas identified.

10. Areas where ACCs consider there is room for improvement from their auditors

The most common area for improvement identified was better use of data analytics and technology.

The second most commonly mentioned area was greater use, co-ordination or reliance on the work of internal audit. ACCs indicated that companies had invested heavily in internal audit, either by building that capacity within the entity or commonly outsourcing this to {another} Big 4 firm. A few ACCs noted that there was little work or reliance on the work of internal audit, especially given the much broader current mandate for financial statement audits, and the investments in competence and independence of internal auditors. Two, both previously practicing auditors, bemoaned the fact that reliance on internal audit in Australia appeared more restrictive than the rest of the world.

Group audits were also seen as an issue, given the auditor's ability to provide insights to the AC on other parts of the group. This was seen as beneficial in providing a fresh set of eyes from an operational and risk perspective.

11. Overall assessment by ACCs of audit quality of the incumbent auditors

Consistent with the categories used by the surveys of ACCs conducted and reported by AUASB, the ACCs were asked to assess overall quality of their auditor as excellent, above average, average, or below average. 12.5 of 21 ACCs (60%) assessed audit quality as excellent, and 8.5 (40%) as above average, showing a high level of satisfaction. Many who assessed as above



average commented that they were hard markers rather than any deficiency in the audit, but there were always things that could be improved.

The basis of the assessments were the factors outlined under Point 1 of this executive summary that ACCs rated highly in considering audit quality.

Many indicated that an average or below average assessment would reflect areas of improvement were needed, and if it was not clear that this would be achieved, this would result in change of audit partner or audit firm.

12. Considerations for assurance of sustainability and other reporting

Sustainability-related reporting and assurance is one of the major topics of current Board meetings, and stakeholder requests to Boards. Assurance is recognised as important for both the Board to have confidence in the information, and related systems and processes used for their decision-making, and to enhance the credibility of information reported to stakeholders.

Not all discussions on assurance of sustainability and other reporting occur in the audit committee. Three major (not unrelated) factors identified as being associated with the likelihood of the AC being the primary subcommittee for discussion of sustainability related issue were the size and nature of the entity, other sub-committee structures and the extent to which the entity embraces integrated reporting.

There is significant variation in current assurance processes, with many Boards currently considering its further evolution.

Assurance of sustainability reporting (including ISSB standards) is seen as essential, but there is a need to get reporting requirements bedded down and give time after reporting is bedded down for systems and processes in companies to develop.

Some concerns were expressed as to whether current assurance processes will be appropriate. Will they cover the easy to assure items, (scoping out areas difficult to assure), and will they be sufficiently risk-based?

Many ACCs saw benefits of the incumbent financial statement auditor also providing this assurance (because of knowledge of business, systems and processes) but some ACCs still saw roles for other assurance providers.

Methodology

We (authors of this report) conducted in-depth interviews of Audit Committee chairs (ACCs) of 21 top ASX300 companies during August–October 2022. Interviews were arranged by the FRC and AUASB and were conducted one-on-one using Zoom/Teams by one of the authors. After an introduction (and receipt of permission to tape the interview from the interviewee) the full interview was recorded. Most interviews went for the allocated one-hour time slot, with a few going slightly longer with the interviewee's permission.

It was decided to interview ACCs instead of using a survey, which has been past practice for surveys undertaken by AUASB in 2018 and 2020 (AUASB 2018, 2021 (report date)). This allowed the responses to be explored in greater detail in order to provide deeper insights on audit quality from the perspective of ACCs. The interviews were semi-structured in that when interviewees raised interesting points, follow-up questions were asked which sometimes meant that questions were asked in a slightly different order depending on the answers to earlier questions. A number of comments were received suggesting this was a more effective way of gaining insights. For example, one ACC noted:

I often struggle with surveys, on a lot of topics that people send out to me, because I've had the good fortune, I guess, to serve on very different companies in very different sectors and very different situations. And when people ask for a response, you know, they, I actually appreciate the opportunity for an interview, because you might have quite different experiences in different situations, rather than but one will give you a snapshot of a company's situation. (AC 8)

The form of unstructured interviews followed previous research (e.g. Malsch and Salterio 2016; Free, Trotman, and Trotman 2021). In particular, we asked interviewees to answer key questions based on a particular company where they were ACC but gave them the scope to draw on their other experiences on audit committees both past and present. All data reported removes individual names, company names, and audit firm names. Interviewees were informed of this both prior to and at the start of the interview which resulted in very frank and open discussions.

The content of the questions were based on previous AUASB survey questions (AUASB 2018, 2021) and ACC interviews carried out in other jurisdictions (FRC 2022; PCAOB 2022). Areas covered included what ACCs consider to be good audit quality, do ACCs have any concerns about audit quality, factors involved in determining choice of auditor, views on ASIC inspection reports, ACCs engagement with the auditor, the process by which the AC assessed audit quality, and ACC overall views of audit quality. Issues associated with assurance of sustainability reporting were also explored.

Below we outline our findings subdivided across 12 themes.

1. What do ACCs consider to be good audit quality?

ACCs referred to a wide range of factors which can be broadly categorised as (a) complete the audit consistent with accounting, audit and ethical standards; (b) the relationship and engagement between the engagement partner and the AC, particularly the ACC; (c) capacity of the audit team, particularly the engagement/signing partner(s); and (d) the audit firm and its reputation.

First, ACCs expect that accounting, auditing and ethical standards will be interpreted and applied appropriately during the audit. Such execution of audits in accordance with audit standards was often taken as given for the audit firms they were involved with (generally Big 4). Descriptions included assisting with the quality and assurance of reporting including an objective view on the integrity of the financial results, a level of rigour and scrutiny, breadth and depth of coverage, and a good audit plan.

Second, there were very frequent references to the relationship between the auditor and ACC (in particular), the AC as a whole, management and internal auditors. Relationships between the auditor and the ACC were referred to including 'trust both ways', open and transparent conversations, constructive high levels of engagement, keeping the ACC informed, regular conversations to inform and alert the ACC to issues. An important part of this relationship is communication. Much of this discussion referred to keeping the AC informed of challenges/problems/issues in a timely manner with frequent references to 'no surprises' and 'as early as possible'. Another aspect frequently raised was the type of communication with the expectation that the audit partner could participate in in-depth conversations, being proactive in bringing issues to the attention of ACC. There were also expectations around insights from business operations and where there are unusual circumstances or interpretations allowing a range of views, details of the resolution with management and potentially comparisons of where the company sits along the spectrum of alternatives (e.g. from conservative to aggressive).

The things that are important to me in terms of audit quality, are that the basis of the relationship is open and transparent. (AC 5)

A level of challenge on what management is putting up. Where there are issues, and there often are issues because either it's an unusual circumstance or interpretation allows for a range of views, then I expect them to constructively engage with management on the issue ahead of coming to the audit committee. And so by the time that they come to the audit committee, I expect from that work for them to be able to give us an independent, objective view on the integrity of the financial results (AC 8)

As part of communication to the AC, there was an emphasis on reporting. This included a well-written report for the audience (directors), clarity around audit differences and observations on controls. Information around management, particularly the finance team, was seen as important including whether management has been conservative or aggressive in their estimates, feedback on the culture of management (including stretched or under pressure). There were expectations of 'value added' including improvements in the finance function and around business operations.



More sort of value add in terms of observations because external auditors run across a range of different entities, they obviously see ..., things that work well, things that don't work so well. New innovation in certain areas, and particularly when they operate, in a sector with a number of different participants in that industry sector, they often are well placed to provide opportunities for improvement or suggestions in terms of the way that things could be conducted in the future. (AC 14)

Third, there was an expectation of a range of attributes of both the engagement partner and the whole audit team. Some ACCs referred to important attributes of the engagement partner while others more generally referred to attributes of the whole audit team but still with an emphasis on the engagement partner. For large clients, the discussion referred to multiple partners involved with the engagement. Technical attributes of the partner(s) included having knowledge across the technical material (including disclosures, regulation, corporate law), speaking from a position of competency, and a comprehensive understanding of the business and the industry. Personal attributes of the partner included independence and courage to call out issues, and pragmatism. The above attributes of the engagement partner were seen as critical and, in fact, were sometimes discussed as the main signal of quality ("quality varies with the signing partner" (AC 11) and "very much about the personal qualities of the signing partner of the audit firm" (AC 8)).

But they will have points of difference. And they need to have the courage to call up those points of difference, and the wisdom to determine which of the ones that really matter, that they'll go all the way to the top, and they'll go to the audit committee chair and come into the audit committee and say, we have an issue. (AC 17)

The above emphasis on the partner(s) is not surprising in that this is the person(s) that the ACC deals with directly. However, many ACCs did broaden the discussion to the whole audit team, including reference to the partners/managers. Here, knowing the business and industry well was emphasised including the challenges faced by the business. Industry knowledge was particularly important in specialised fields (e.g. banking, insurance, energy), including bringing insights from comparisons with other competitors in the industry. Other ACCs broadened the discussion to the quality of all the people in the audit team, e.g. quality of the auditors including skills and experience 'of the team a couple of layers below partner level'. This included skills, commitment, experience, rigor, business/industry, digital and computer knowledge.

In my view audit quality will also go to the quality of the people involved doing the audit, the level experience they have, the level of research and backup they have in their organisation, the number of specialists that they use in their audit, such that not one audit partner necessarily covers or tries to cover all aspects of expertise involved in any particular corporation. (AC 6)

The quality of the people or the auditors, and I don't just mean the brand name of the firm. And I don't just mean the partner, or the partners, I mean, deep into their teams. So a good couple of layers below that. (AC 9)

I think, the depth of leadership in the audit firm, so because it's not just the signing partner, the engagement partner, it's the review partner. It's the knowledge of who else



they can discuss any issues they are having with the client, the manager that they've gotten the job that every single person that they bring to the job, their depth, their continuity (AC 17)

There was a particular emphasis on independence/challenge which at times was focussed on partners and at other times, more broadly across the audit team. References were made using terms such as 'call things out', 'a level of challenge of what management is putting up', 'independent objective view'. More specifically, there was reference to

how much challenge, what happens with the challenge when they have a different view to management (AC 10)

So the quality of the audit is how much of that challenge happens. And what happens with that challenge when they think they've got a different view to what management have, and how those processes buy out. (AC 9)

Finally, there was reference to the audit firm and its reputation. All the ACCs interviewed focussed on audits where the audit firm was one of the Big 4. They were generally of the belief that a Big 4 auditor was required because of its global reach, industry knowledge, systems and the quality of firm leadership. One ACC saw all the Big 4 as 'pretty good' and 'pretty similar' but saw some differences in the tools they had created to take a broader and deeper coverage of data. There were other comments related to the systems and processes of the Big 4 with suggestions that they varied in the extent to which these systems were adapted to the relevant industry and client.

...Some [systems] have been modified specifically, say for the resource sector or for the retail sector, and where that modifications have been done, they're much more powerful, better products (AC 9)

Other issues raised included the integrity and values of the audit firm as they impact on how staff act, the use of specialists by the firm, and the communication between head office group auditors and auditors working in the field. Views about the firms were based largely on personal experiences with the firms (some ACCs had interacted with all or most of the Big 4) but were also impacted by reputation and ASIC inspection results (discussed in section 5).

When referring to the attributes of the audit firm, only a small number of interviewees referred to their transparency reports. These references were in the context of a specific presentation to the AC, references to transparency reports in the press, and reference to using transparency reports when considering putting the audit out to tender. Overall, we saw little direct use of transparency reports.

2. Do ACCs have any concerns on audit quality or the audit market as a whole?

It was almost unanimous among the ACCs interviewed that there was a high level of satisfaction with the quality of the audits they were involved with. This was often with the caveat that their ACC roles only involved the Big 4 firms. In many cases, the ACCs had experience with more than one Big 4 firm as they were on a number of ACs. It was pointed out by a number of ACCs that if they were unhappy with any aspect of the quality, that would be addressed quickly by a range of actions starting with the partner-in-charge or managing partner of the firm and, if necessary, putting the audit out to tender. In a very few cases, ACCs made some negative comments about the performance of an auditor in the past but this was not the case for present auditors.

Below we discuss specific issues raised by the ACCs in answer to this question. These comments were in response to an open question about their views from the perspective of an ACC on audit quality, including the audit market as a whole. Most comments related to the limited choice in appointing an audit firm, comments on the regulator and a small number of other suggestions on accounting standards challenges, staff shortages, ESG issues on the business model.

There were a large number of suggestions made that in a small market (Australia) there is a limited number of people with the skill set and experience to deal with an organisation of the scale and global operations of their company (for example, large financial organisations subject to various financial regulations that require assurance). These large organisations often use three or all four of the Big 4 firms in some capacity (e.g. internal audit, regulatory compliance, tax, consulting). There were numerous comments that only the Big 4 (and sometimes only the largest three) have the global scale necessary to provide the level of service required. There were suggestions that these large companies did not go outside the Big 4 because of a belief that the other firms did not have the global coverage or lacked some element of what they saw as essential for a high-quality audit (e.g. ability to invest in information technology).

When you go outside of the Big Four, you start to see a drop off in some of those elements that I've nominated as being critical to audit quality. So that ability to invest in information technology, that that depth of leadership, the smaller firms might come up with some of those elements, but not all of them (AC 17)

So in our relatively small market there is somewhat limited choice of people who've got the skill set and the experience to deal with an organisation of the scale and global operations of a bank like ... The reason why we don't put it out to tender is, ... Australia is a relatively small marketplace. And if you say that there are four big firms, in some way, shape or form, we use every one of the four for consulting services for tax services for other services etc. ... And it's only the Big Four who would have the global scale to be able to deal with an organisation like us (AC 2)

One concern expressed was that although there are potentially four firms that are of the global size to handle the audit, some ACCs suggested that when they drilled down to their needs, not all firms may be viable (e.g. in certain cities). In addition to the present auditor, many ACCs suggested they were using two or more other firms to provide other services and so they often only had the choice between the incumbent auditor and one other. There were also a few suggestions that some firms would be reluctant to give up income from other services to tender for the audit. In these cases, the ACC still considered the audit to be the 'prized thing to win' or such behaviour would not be considered appropriate by some ACCs. However, in some cases a company may even rule out a particular firm because they greatly value the work in another particular area and the cost is too high to change a number of suppliers.

for some of them to forego some of that income and activity in order to go into an audit tender. But I think the reality is that the audit is still seen as a prized, as a prized thing to win (AC 8)

Because of the above limited choice, some concerns were expressed about suggestions/changes in other jurisdictions around the world for the need to put an audit out to tender after a certain number of years. ACCs raised the point that where they were using the other three Big 4 firms for other services and so in order for these firms to tender, they needed to 'go away and make yourself independent' and therefore the company would be deprived of services for a number of years for the firm to qualify as being independent.

I do think four is a little a little too few these days, to be honest. I mean, I think six would be nice. ... it only becomes an issue because it's such a complex world. And you know, you've got service providers that you're using for all sorts of things ... And so if you do decide you need to change your provider for whatever reason, you've almost got to plan two or three years in advance to make sure you've cleansed the firm before they come in and then sometimes you go well is it really worth it, we're getting great tax advice from that firm. ... It's more because the lack of choice just makes it very difficult for companies to juggle change, if they need to juggle it. They can do it, and it can work. But it requires some delicateness. (AC 18)

Another key point raised in response to the question on concerns with audit quality was the role of ASIC inspections. Later in the interviews we asked a specific question on these inspections. However, prior to that question, many interviewees specially referred to the regulator in general or ASIC specifically. These issues referred to low value compliance, pressure by regulators leading to a 'tick the box mentality', criticism of the way results are disclosed and use of small sample sizes. There was specific reference to discussions with auditors about the inspection process including that allowance is not made for differences in judgments as ASIC always believes they are correct.

But they look at a ridiculously small number of files. Compared with the size of work, for example, the Big Four actually doing, and then they look at those files, in minutiae detail to the extent that they're actually spending more time doing their review within what the firm's actually spent doing the entire audit. I'm critical of that, ... they announce results that didn't require a restatement of the audit opinion or the financial statements, but make it appear that they [the auditors] are doing a bad job. ... I hear talking to the Big Four that, it's just, they don't allow for any judgement. So if there's a disagreement of



opinion as to how this rule applied this, you're always wrong. And that, that undermines the credibility (AC 10)

ACCs frequently referred to attributes of individual partners and in the vast majority of examples ACCs had significant confidence in their audit partner. In the rare circumstance where they did not, they would take remedial action raising the issue with the senior management of the audit firm, asking for a different partner or, where appropriate, put the audit out to tender.

I have had limited situations where the audit partner or someone in the team isn't where we need them to be. And we've embraced that conversation directly with the managing partner of the audit firm and ultimately through going to tender. (AC 7)

Three other issues were raised by a small number of interviewees. First, suggestions that auditing standards have become more rules based over the last 20 years which reduces the focus on intuition and judgment and that auditing standards have not kept up with technology (the same ACC was critical of ASIC for not keeping up with advances in technology). Second, issues were raised concerning the challenges of attracting and retaining high quality staff. These issues were raised in discussions about competition for new talent and also in discussion of the adverse publicity related to ASIC findings. One ACC related this point to the issue of Big 4 firms splitting up part of the business. The question was raised as to the effect of this on audit quality going forward including the attraction and retention of good talent. Third, some insights were given on the impact of climate change and sustainability on business models. In conjunction was the issue of the effects of those changes on audit obligations that will be placed on external auditors and ensuring that the audit firms have the capabilities. Another point was that in some industries, particularly sectors related to new energy sources, Boards are spending a lot of time reskilling and auditors need to ensure they are keeping up to date.

3. How often do ACCs consider appointment of a new auditor?

The vast majority of ACCs referred to an annual assessment of the audit firm/auditors (discussed in section 8) but generally this did not lead to a change of auditor unless there were some concerns about the quality of the audit which was not the case in the previous year for any of our interviewees.

ACCs outlined three key circumstances where the audit would be put out to tender. First, the company was not getting the level of audit quality, the expertise or the level of service they expected. While this was not the case for any of the ACCs in the current period, a number gave instances where they had put the audit to tender in previous periods or for other companies for this reason. Second, for some ACCs long tenure was a reason for going to tender. This could be in the 10-year plus time horizon or in some cases it was much longer and the ACC decided 'the time was right'. The length of the period varied with some ACCs mentioning 10–15 while others saw no limit provided the audit firm was delivering a high quality audit and that in some industries (e.g. financial services) the choice was very limited due to the small number of auditors with the industry and global experience required and without other audits in the same industry. Third, a smaller group saw the need to make sure the audit was still contemporary. In this case, the tenure process allowed the ACCs to see the alternatives and what expertise they had and, even if the incumbent was reappointed, the process was of benefit. We note that one ACC explained that after a very long period with the same audit firm, their company put the audit out to tender which was completely unrelated to an issue of audit quality and the incumbent was excluded from the tender process.

I think there is an emerging trend that 15 years plus, maybe 20 years plus, is becoming at the long end of the tenure arrangements. (AC 1)

But the length of the audit had been a fair while and I said this is too long. And we've got to go to market, and we did. Yeah, the fact that they won it, the incumbent won, didn't matter to me it was that we did the test. (AC 13)

While some ACCs referred to consideration of putting the audit to tender as a matter of course when the AC did the annual evaluation of the audit, most referred to serious consideration happening less frequently (unless there was an audit quality issue) such as every five years at the time of compulsory change of the engagement partner. While it was thought that consideration had benefits by providing a new set of eyes and judgments, the process did have significant costs in management time.

My rule of thumb has been that if the auditor is performing, and you have no reason to doubt their independence, the quality, etc, then you know, I am, I'm not in the mind to change, right? Having said that, I am conscious that when an audit firm has been with you for 10 years or more, then at least you need to stop and reflect as to whether or not they are the right firm for you ...But I am loathe to go to tender, either because of the workload for management or for the firm itself, if in fact, the firm is performing well. And there's good rigour around the rotation of the audit partner and the team. (AC 7)

The main reasons given by ACCs for not going to tender were as follows. First, if the auditor is performing well and there are no issues related to audit quality or independence, some ACCs suggested there was no reason to go to tender. Part of this argument was that the rotation of the



engagement partner and other senior staff gave significant rigor to the process. One example provided was seeing the quality of the people put up for engagement partner was the first step while reserving the ability to go to tender. Second, given the small market and only four firms with the perceived expertise to carry out a large complex global audit together with conflicts over other audits held, and other work carried out by the audit firm, the choice often comes down to two firms including the incumbent firm. Because in going to tender it is likely some of the potential firms will be doing other work for the company, it is necessary to make the decision to change the auditor well before the change (e.g. 18 months) to meet independence guidelines. Third, there is a cost to changing audit firms described as providing substantial disruption including the workload for management. The issue of some firms potentially not wanting to give up income in other activities to tender for the audit was raised. An ACC concluded that the Big 4 “*still see winning the audit and holding the audit as the premier position*” (AC 17). The ACC concluded that firms “*take an annuity consideration into account*” because the audit is usually continuous for many years whereas the consultancy can come and go pretty quickly.

In summary, most ACCs were of the view that a company would only put the audit out to tender if they were not satisfied with the quality of the auditor, the level of service, or there was an issue of independence. There was concern about the additional costs due to disruption. ACCs saw the rotation of partner every five years as gaining much of the benefits of a change of firm. However, there does come a point in time when the audit did need to go out to tender and, in some cases, the incumbent would be renewed but in other cases they were excluded or not selected.

4. What factors do ACCs take into consideration in the appointment of a new auditor?

In answering this question ACCs discussed the attributes of the audit firm/audit team they would be looking for if they put this audit out to tender. In responding, they either referred to the last time they put a particular audit to tender or, if this had not happened, what they would be looking for if they did put it out for tender. In all situations, the present audit firm was a Big 4 firm and the discussion was based on the premise that the audit would go to either the incumbent (but in some cases this firm was ruled out) or one of the other three Big 4 firms.

The most frequent factors were the reputation of the audit firm, the qualities of the lead engagement partner, the audit team as a whole, and the overall quality of the audit (which was often a combination of the above three).

First, the reputation of the firm often was determined on the basis of interaction with different firms as well as external information including ASIC reports and press reports. This reputation included credibility of the audit firm, adequate size, global activities, expertise, and standing in the industry. Other references were made to methodology including up-to-date technology and the control systems of the firm. Related to methodology, there was mention of the use of data analytics and the use of tools to provide greater value. A number of ACCs also mentioned that when there was adverse publicity for their audit firm (e.g. ASIC report, newspaper story, etc.) the CEO would personally contact them to explain/apologise. The other main factor was the quality of the lead engagement partner. This included the partner's capability, industry experience, independence, forthrightness, and cultural fit/personality. This discussion sometimes referred to the audit team as a whole rather than just the engagement partner. This included the team meeting expectations, their expertise, their coverage and gender representation on the team.

It was the quality of the team that they brought forward. The specialist knowledge of the sector, as demonstrated through the presentations, by insights that they brought out in conversation about things that were happening in the industry, and, and therefore the ramifications for the company, and how that might translate into impacts in the financial statements.how they would use their tools to provide greater value in the audit as a whole. But fundamentally, it's about the quality of the team, the depth of expertise, the insights that they're bringing to bear, relevant experience in in the sector or dealing with issues that we were likely to be facing in turn. And, and the feeling, I think that the incumbent team had perhaps just lost a little of the energy that the new team came incredibly excited about the opportunity and brought a level of energy to the whole exercise that probably the incumbents just didn't have. (AC 8)

The final factor referred to the quality of the audit work done. This included references to the 'right' sort of service, their satisfaction with the audit, clear communication including clear discussion around areas of judgment and what alternative assumptions could be made.

... the [incumbent auditor], came to us, we had a whole session at the audit committee talking about audit quality, and how they would some of these matters that they would report back to us. So their transparency report and some of the key data from their



Transparency Report. And the key data from ASIC reviews, as a firm and what the findings were and where they were working on it, and whether any of those matters were present, that they provided us a summary of their diversity statistics, they gave us a summary of their leadership quality survey, ... do we observe professional scepticism and challenge happening through these reports and the discussion and are we satisfied they address the risks? What is the quality of the report they gave us, ... you want there to be a good relationship with the finance team, but you want it to be appropriately independent and challenging was not being, you know, ... So that was what we did. And so we were able, then, if questioned by a shareholder around, [audit firm] have been your auditor for a long time, don't you think you should get rid of them, have a change, we will be able to articulate the steps that we went through, in making that assessment of audit quality. (AC 21)

5. ASIC inspection reports

Most, but not all, ACCs were familiar with the ASIC reports for individual firms. While this information was sometimes obtained from press reports and the audit firm transparency reports, the most common source was details provided by the partners who were generally forthcoming in providing insights on the most recent ASIC reports.

The general sentiment of the ACCs was that some form of oversight and inspection process is a good thing, but many were extremely critical of present reporting processes by ASIC. The positive aspects of the inspection process were that it is likely to improve overall audit quality, it was useful at the time of the tender process, it is a useful discussion point to have with the incumbent audit firm, and that it gives another layer of comfort.

I have a number of other firms as external auditors. So I have my own judgement, on quality as well. But the fact that I have that report to add to my own judgement is really powerful. ... So I don't really need to go and source it, because it made its way to me pretty quickly. (AC 9)

The criticisms of the inspection process focussed on the sample selection and the generalising of a very small sample of high-risk audits to the population of audits. There was also extensive criticism of the reporting processes with reference to 'grand standing' and the focus on the negative rather than a balanced report.

But I always pay a lot of attention to see which way ASIC is heading, in their view of audit quality. I have a long held view that there's a misalignment between audit quality, and ASIC's way of testing that. ... And so I'm always interested to understand when you get two experts disagreeing why one expert thinks they're more right than the other expert ... there's probably a range of issues that come to mind. Firstly, the rhetoric that I consistently read from ASIC, in the media, in particular, is quite at odds with my actual engagement and experience with the auditors that I deal with ... I think that inspection process itself is highly valuable to formally running an audit division. I think an outside view looking into something like an audit process should be a good thing and should add value to the way in which audits are executed and should encourage that continual improvement. So, sharing ideas, helping people move towards best practice in a constructive way should be a good thing. So therefore, on the whole, I am supportive of well run inspection processes. I'm not supportive of headlines that I'm not sure what they're aimed at, but they seem to be aimed at sort of either grabbing somebody's attention, whether it's audit committee chairs, whether it's the audit firms themselves, I worry when, the profession is continually cast in a bad light when you're trying to recruit into the profession... As long as the reports are balanced, and paint both positive and negative, I'm comfortable with that. (AC 16)

Little less grandstanding? I sort of get it that ASIC need to be seen to be the tough cop on the beat. ..., is it intended as a media release that enables the ASIC to blow its own trumpet about what a good job they're doing. If that is the objective, so be it. If it's intended to be a genuine communication tool with audit committees and directors around what how their audit firm is going. I think it meets the first criteria and fails the second quite badly. (AC 1)



Questions were raised about whether ASIC had the resources and staff to make the judgments they do on specialised complex areas where ACCs had more confidence in the specialists they hired than the ASIC staff. There were a number of strong criticisms of the rating system of the firms and the link to performance based on small non-representative samples. However, there were a number of ACCs that placed a lot of weight on these ratings.

I think to some degree, they've been politicised, which is unfortunate, in that, firms boasting ... In the absence of having someone audit the auditors, I think there is a risk that auditing standards slip So I do think we need some function, which actually is auditing the auditor? So I think that the way ASIC goes about it, where it is risk based, their choice of who they audit, I think that probably is the right thing to do. But if it's risk based, then it actually can't be generalised across the whole universe of audits. And I think the problem is, at the moment, people are getting results. And they are generalising them. And that actually isn't useful for anyone. Because if you want audit firms to take on risky clients, and I want the good audit firms to take on risky clients from a societal perspective, potentially that process discourages them from doing that. And then you end up with the riskiest clients in the least experienced hands. (AC 4)

In summary, concerns were raised about the effect of this reporting process on the standing of the profession and the ability to attract top high-quality staff to the profession. Some ACCs were particularly critical of some of the judgments made by ASIC, the methods and the lack of balance in reporting. Almost all ACCs referred to the fact that the audit firms informed the ACC if there was a current inspection involving the company. They also referred to audit firms providing insights on the latest ASIC inspection reports and if there was adverse publicity about one of the firms, senior management of the audit firm was proactive in discussing the issue with the ACC.



6. Do ACCs see benefits in disclosing tenure of audit firm?

The vast majority of our interviewees responded positively to this question with only a few disagreeing. However, while generally positive, the responses were along the line that the information was already publicly available and so they saw no real harm in disclosing it. However, even among those that were in favour, there were a few cautioning explanations. These generally related to doubts whether it would be misinterpreted. For example, “*could well give the wrong impression that you'd lost all of that independence*” (AC 8). It was also suggested there were high costs to change auditors in circumstances where the company had taken adequate measures to ensure independence and were very satisfied with the quality of the audit from their present auditor.

My own experience is changing firms is quite a painful process, because of the institutional knowledge. And these businesses are so complex in this day and age, you know, you do lose something. Equally, a fresh perspective is very good as well. (AC 18).

Of those who were not against the disclosure, there was a range of options of where the information should be presented. Almost all suggested that this information be provided by the company with the most common suggestion being in the notes in the financials (e.g. Auditor Remuneration Note). The next most common suggestion was that it be placed in the Corporate Governance Statement. There were a few suggestions that it be in the Directors' Report.

7. Type and frequency of ACCs engagement with auditors

Almost all ACCs interviewed had a pre-meeting with the auditor before every AC meeting.

I have a pre meet with the auditor ahead of every audit committee meeting... if there's an issue that I'm uncomfortable about I will proactively reach out to talk about an issue. If there are issues that are sometimes of interest, audit partners will reach out to me to discuss a topic that's coming up or just to check in on how the company's going.. (AC 8)

For a few ACCs it was less frequent, occurring around the AC meetings considering the draft half-year and full year audit reports, but in addition if there was something in the AC papers that needed explaining, or that the auditor wished to bring to the ACCs attention.

Would talk to the auditor, certainly before the two that are around reporting... But it's more frequent than that, from a practical perspective, because going into the other two audit committee meetings, there's usually something that's coming from the auditors that you'd have a chat to them about (AC 4)

All ACCs expressed the need and actuality of effective and open lines of communication. Thus outside these pre-meetings the ability of either the ACC or the audit partner to get on the phone to the other party at any time was emphasised.

The philosophy I have is that the phone is always there... I have a formal catch up before each audit committee meeting. So when the papers are out, a week before an audit committee meeting.... (AC 6)

[If] there's an issue, or a problem, then I would pick up the phone to the auditor, or the auditor would pick up the phone to me, I mean, it doesn't have to be a big problem, but it's more just making sure the communication lines are open. (AC 12)

There were some comments that in the current environment the relationship between the ACC and the audit partner has become less formal (but not less independent or professional).

I find it quite interesting, when I was at [audit firm], the relationship that you had with the audit chair was probably a lot more formal than maybe the relationship I'm having with my audit partner. And possibly, it's because it's the next web generation. And also things like ZOOM just make it so much easier to catch up with people. (AC 19)

Management are unlikely to attend any of the meetings outside AC meetings. Most did not envisage management ever being involved in the more informal catch-ups, although a few ACC's did not rule out their attendance if it was beneficial.

No, these are independent. These are separate from meetings with management. That doesn't mean that we wouldn't have meetings together. (AC 2)

Virtually all of those discussions I have by myself. But if it is something technical, that we had to nut out, then I could envisage a situation,,, with management. (AC 19)



ACC's were asked which word best describes their relationship with the audit partner. They were not restricted in the number of words they used. They are on the whole very positive, with the most common word open (10 of 21 instances) followed by very-good, professional, candid and respectful (5 of 21 instances each). The only word used which was less than positive was the word 'developing', which for the one instance use referred to the first-year relationship of the ACC and the audit partner.

8. Processes for assessing audit quality at completion of the audit

How do Audit Committee assess audit quality at the completion of the audit?

The processes for assessing audit quality ranged from a very formal and structured one to a less structured approach. The very formal and structured approaches included distributing a questionnaire to (or surveys initiated by) auditors and management and explicit consideration of this feedback at an audit committee meeting, under a specific audit committee agenda item. In some cases there was a survey distributed to each member of the audit committee (or entire Board of Directors) by management for compilation and consideration by the audit committee.

We do a board assessment and audit quality assessment. And in every place, we encourage the firm and our team to do a debrief, what went well, what didn't go well, ... Either we'll run a survey process with our management team on the audit firm, or they'll run a process, which involves surveying our people (AC 18)

The process involves a questionnaire that's managed by ... the people who prepare the financials. They get feedback via this questionnaire from all of their own internal leadership as to what they think. And then there is a separate questionnaire that goes to every member of the board and every member of the audit committee asking what they think of the external auditors... (AC 2)

In the less formal approaches there was no explicit comment of surveys or questionnaires, but there was an explicit agenda item on the AC's agenda, and sometimes this is included in a briefing paper from management. In two instances there was no mention of a specific agenda item, or an overall conclusion recorded about audit quality for that audit. Both of these ACCs felt that there was sufficient opportunity to for audit committee members to raise any concerns about audit quality, or that the assessment had been implicitly part of other discussions around the auditor.

We don't have a formal structured template that we follow. It really is more, the directors who are on the audit committee bring a certain level of sort of expertise, and I guess, our view on that get teased out that way.... (AC 15)

What issues are considered

The issues that are mainly covered in assessing audit quality were similar to the audit quality issues raised earlier by ACCs.

So the assessments have been more around, how well have we worked with them? How responsive are they? You know, are they proactive? Are they timely? Is it good reporting? Now, all of those things feed into audit quality. (AC 19)

And it would consider various aspects of the auditors performance. So from memory, it goes through their technical capability, the organisational, like the very practical carrying it out, were they organised and upfront, and did they make timetables and things like that? And then there's a third category that, how do they engage with the audit committee? Did we get the information we needed when we needed it? How was the reporting through to us? (AC 4)

An evolving approach to assessing audit quality

Some of those running a fairly informal process of assessment of the quality of the auditor identified a likelihood of the process becoming more formal in the future.

It's informal, I suspect, we're probably going to have to move to a more formal arrangement going forward. I think that'll be the only way ASIC will be satisfied that governance has been exercised. But yeah, I can see that coming. (AC 1)

It could be more formal, but we do in a private session as the audit committee, talk about the auditors whether we were happy, what we liked, what we didn't like, all those sorts of things, I think there's going to be more formality coming out with guidelines and things. So we will probably go through more of a process which is okay, more of a formal process. (AC 12)

Even those running a fairly formal approach say their evaluation approach is evolving

I guess I feel confident, but I keep challenging myself, whether we can do more every year. So even if it's whether it's through that questionnaire, I don't just send out or authorise for the same questionnaire to be sent out every year. But we pause and think around, is there anything we could ask differently? Is there anything extra we could ask? And that's an area where I talk to my peers a bit. Try to get clues from others of me, across the other big companies and say, Well, what do you do? What else are you doing? And I don't mind stealing good ideas. (AC 9)

Audit quality indicators used

Most ACC did not see a benefit in establishing further guidance on audit quality indicators. They either tended to indicate that it did not inform them or the use of a list of audit quality indicators may lead to boilerplate assessments, without the required consideration, as indicated by:

I don't really look at what people might call audit quality metrics, or audit quality indicators. Because frankly, I think all the indicators that are out there don't really give you much useful information about whether or not you've had a quality audit. (AC 2)

Some indicated that they did or will use such lists to help inform them of their processes including the recent publication by the AUASB and AICD (2022):

I have right in front of me the guide for audit committees from the AICD. Because one of the things that I've been wanting to do when we do an annual assessment of the auditors... we talk about how well they perform the audit, but we actually don't really talk much about audit quality. So what I've been wanting to do is come up with a better mechanism for us to assess and report back on audit quality (AC 21)

9. Areas where ACCs consider that their auditors perform well

The ACCs were asked to describe areas where they believed that their auditor's performed well. Most concentrated on one area. The key areas identified by ACCs where they believed their auditors perform well were:

- Providing insights on the business to AC, both how it operates and from best practice approaches and disclosure, and source for future trends, standards and regulations
- Use of experts in areas of critical judgment
- Work well with management to resolve issues
- Quality of communication and early identification of issues

The main area identified above was providing insights on the business to the AC, both how it operates and from best practice approaches and disclosures, as illustrated by the following quotes:

Insight on the sum of the moving parts and where there was sand in the gears, auditor was in a position to provide some colour around what the organisation had been through (AC 1)

Good at stepping back and, giving you a relative view across the business of areas that are doing well, and less well. (AC 12)

The range of assumptions that have been used, and what alternative assumptions could be used. And what impact that would have. (AC 21)

Their ability to bring in experts in areas of critical judgment was also highlighted, as illustrated by the following quotes:

In the areas of judgement, they will bring experts to bear and ... they will do their own analysis and compare it to ours, [and] tell us where we need to sharpen it up (AC 4)

We've had a lot of engagement with [incumbent auditor], and their technical experts, and they've also shared with us experience from their overseas operations (AC 11)

Their ability to work well with management to resolve issues was also identified by ACCs as illustrated by the following quotes:

Working with management and just getting things done in challenging timeframes without compromising quality (AC 3)

Very good at bringing management to the point where they could see that the reading of the standard required that it had to be read that way. That was a management exercise on their behalf as much as the standards exercise (AC 6)



The high quality of their communications including early identification and communication of issues, was also commented on by a number of ACCs, as illustrated by the following quotes:

Good, open communication early. (AC 18)

Clear, open, concise, regular communication. Very transparent, proactive. Don't do things at the last minute, I find that the way they present their reports and summarise issues, is very sort of simple and easy to read. (AC 19)

Open... candid conversation, with clear communication on matters of judgement. (AC 21)

10. Areas where ACCs consider there is room for improvement from their auditors

The ACCs were not restricted to identifying and discussing one area of improvement, but most either did not identify areas of improvement, or they concentrated on one issue. The key issues raised by the 21 ACCs are:

- Better use of data analytics/technology and communication of best practice
- Better use/co-ordination or reliance of work of internal auditor
- Improved insights around group operations. AC rely on auditor for insights, but auditor does not visit (e.g. not material to auditor)

The most common area for improvement identified above was better use of data analytics and technology, as illustrated by the following quotes:

I think they can probably do more around the use of analytics..... But this is a double-edged sword because the more you do in using analytical tools, for the auditor to use analytical tools, that also puts a fair onus on management to organise data in the right way. (AC 11)

The capacity to interrogate 100% populations of transactions in a sensible way.. is the future that's not going to detract from their professional judgement. But it does ensure coverage of transactions. (AC 17)

The second most commonly mentioned area was greater use, co-ordination or reliance on the work of internal audit. ACCs indicated that companies had invested heavily in internal audit, either by internally building that capacity or outsourcing this to {another} audit firm. They saw that there was limited reliance on the work of internal audit, especially given the much broader current mandate for financial statement audits, and the investments in competence and independence of internal auditors.

I generally think that there can be better dialogue between internal and external auditors. I do think that we've lost our way a little bit generally with the two audit capabilities talking to one another, leveraging one another. And perhaps it's harder nowadays for an external audit firm to leverage the work of internal audit, but I do think that there ought to be better connectivity between the two actually. (AC 7)

Collaboration between external and internal auditors is pretty average. ... arguably, there's, you know, the overlapping, concentric circle type thing, but I think, in some internal audits have moved more to operational (AC 18)

Group audits was also seen as an issue, with the auditors ability to provide insights to the AC on parts of the group seen as beneficial in providing a fresh view from an operational and risk perspective:

I think they could spend a little bit more time in the field... they tend to hit the projects that they're worried about... And I understand materiality and all that sort of thing. I just think that there are pieces of the business they could just spend a little bit more time in the field. (AC 6)

when you've got significant overseas operations ... Its an opportunity for the firms to look at how they bring in an aggregate, and, I guess sort of ensure consistency and quality of the auditing that comes through in those different countries overseas (AC 9)

11. Overall assessment by ACCs of audit quality of the incumbent auditors

Consistent with the categories used by the surveys of ACCs conducted and reported by AUASB (2018, 2021), the ACCs were asked to assess overall quality of their auditor as excellent, above average, average, or below average. 12.5 of 21 ACCs (60%) assessed audit quality as excellent, and 8.5 (40%) as above average, showing a high level of satisfaction.

Category	Number
Excellent	12.5 (60%)
Above average	8.5 (40%)
Average	0
Below average	0

The 100% response of excellent and above average show that ACCs have remained very satisfied with the quality of their external auditor and compares favourably with the 94% rating them 'Above Average' or 'Excellent' for the survey undertaken by AUASB in 2020 (reported in 2021), and the 92% in 2018.

The basis of the assessments were the factors that ACCs rated highly in considering audit quality, as reflected in the following quotes:

Understanding of the business, and depth of communication and understanding. (AC 16)

No surprises. And to me just a lot of good clarity and discussion on the complex issues. And really, being able to articulate well.... And there's quite a bit of support then for the key judgments and the way in which they test those key judgments. (AC 19)

Many ACCs indicated that an average or below average assessment would reflect areas of improvement were needed, and if this was the situation, this would result in change of audit partner or audit firm. Others identified specific areas where their auditors, or the auditing profession in general could improve. For example:

Above average. But that whole piece on sustainability, I think is, you know, we're not leading the world on it. And the expectations of stakeholders, particularly shareholders, is rising materially, and I think we need to do a lot in that space. (AC 14)

Many who assessed as above average commented that excellence was a high barrier at which to assess. For example:

Above average is what you're looking for. Excellence, it's a superlative that should be reserved. And if you think about it, how can everything be above average? Doesn't make sense... If the average is excellent, then it needs to be recalibrated. (AC 16)



Others recognised that it was the interactions of the auditor with the client, and sometime the client may restrict the performance of the auditor; For example:

If you're auditing [a client] who's probably got some very sophisticated systems, I'm sure the auditors of [that client] do some amazing analytics, right? If you're auditing an organisation that's got legacy systems that haven't been updated for 10 years, then you can't possibly do the same level of sophistication. (AC 19)

12. Assurance over other reporting including sustainability assurance

ACCs were also asked a series of questions over assurance of other reporting responsibilities outside the financial statements, including sustainability and climate change reporting. As assurance decisions on these areas did not sit necessarily under the AC, (but if it did not, ACCs were usually involved in these discussions, either at the full Board, or as members of the sub-committee where the conversations took place (e.g. Sustainability Committee). Some of the major themes from these discussions, and the takeaways are described below.

Sustainability and other reporting and assurance is currently a major focus of full Boards,

Sustainability and related reporting and assurance issues are on the agenda of all Boards. In fact, in discussions with key stakeholder groups, including discussions at AGMs, commonly more issues are currently being raised in relation to sustainability related issues compared with financial accounting related issues. The importance of sustainability to the full Board is evidenced by the following quotes:

On these topics, given how quickly they translate into AGM related discussions, the whole board are vitally concerned with the E and the S and the G (AC 1)

We're really talking in the board as a whole, around the strategic approach that we're going to take to sustainability. Because generally it's a licence to operate/ reputational cornerstone, of the strategy of any company in any industry that you're in. So you need an all-board approach to how you're going to deal with sustainability strategy. (AC 17)

Likelihood of ACs being involved in decisions around assurance of sustainability and other reporting

There was quite a range of approaches related to decisions around assurance or other credibility-enhancing techniques associated with sustainability-related information. In some cases the AC was involved, in other it was either the full Board or another sub-committee. Where it was a separate sub-committee of the Board, the ACC usually mentioned that they were also a member of that separate sub-committee. The variation of approaches in practice is evidenced by the following quotes:

The XX (sub)committee is the one that's actually looking at this other area of activity. Now, I sit on that committee. (AC 2)

We have a separate sustainability committee of the board... And that sustainability committee drives both the development of the ESG strategy, the monitoring of that strategy and the reporting of that strategy. (AC 6)

[the audit committee] manage the assurance verification procedures over the whole annual report, with our sustainability work integrated into the annual report (AC 10)

The sustainability report is under the purview of XXX (sub)committee, which is a separate committee to the audit committee. Because I sit on that committee, I get to see it all (AC 11).

Sustainability reporting is covered by the verification that comes up through the audit committee. The Board looks at it more from a messaging and things. But the audit committee is looking at more from verification. At the moment, we do internal verification. (AC 12)

Sustainability reporting is something that's it's captured as part of our annual report, there's a section in the annual report, it's definitely the audit committee that takes it to the board.... because it fits into that regime of external reporting. (AC 16)

In trying to identify the common themes, three major (not unrelated) factors were identified as being associated with the likelihood of the AC being the primary subcommittee for discussion of sustainability related issues.

- **The size and nature of the entity:** larger and more highly regulated industries (such as financial) were seen to be less likely to have the AC as the logical home for sustainability assurance.
- **Other sub-committee structures:** The increased prevalence of sustainability committees meant that these were the logical home for discussions around sustainability related reporting. It was less clear for assurance issues associated with such reporting. ACC's were commonly members of the sub-committees where these discussions were taking place
- **The extent to which the entity embraces integrated reporting:** the more likely the sustainability information is reflected in the annual report, the more it is seen as the domain of the financial statement auditor, and the more likely the AC will have jurisdiction over the information

An interesting issue arising is that the additional focus on sustainability issues and associated assurance is challenging current Board sub-committee structures. This was emphasised by the following observation:

So you need an all-board approach to how you're going to deal with sustainability strategy. What then tends to follow is, who's going to do the work? And the work tends to be shoved all too often onto the audit committee. So I think there's a big discussion to be had... as to how to actually optimise the use of the committees to cover all of these continually emerging ESG issues. ... these have become very big areas (AC 17)

Is assurance of sustainability reporting (including ISSB standards) essential?

The view was overwhelming that sustainability reporting, including reporting under the ISSB standards, should be assured. This was based on the view that this information is important to the market, and Boards are continually being questioned about what they are doing by shareholders and stakeholders.

it should be because you know, it's starting to become information that is sought by the community at large and so has an impact on ASX reporting in that whole kit and kaboodle. (AC 2)

Absolutely. I'm an advocate of having information assured. Even in an emerging area, like ISSB stuff. (AC 5)

Also ACCs saw benefits in the improved perception on this information brought about by assurance.
For example:

There's a perception issue that might make it valuable to be assured that if you're confident about having it assured, then that speaks to your maturity and confidence in the numbers that you may have, anyway. But having an external assurance on it just provides, provides that perception, and I think also the value of it is, an external party saying to me as a board member, it's a bit like those areas of judgement and the alternative assumptions, what you've got here, it's fine. Be aware that there are a range of other assumptions you could have taken that could have led to this outcome or their outcomes. So you actually have a bit more insight as to how the material could be presented differently, or what the risks are of achieving your targets (AC 21)

However, many ACCs commented on the need to get the reporting requirements bedded down first. This is reflected in the following quotes

Ultimately, yes [there should be assurance]. I just worry about stopping evolution of how you present this information in a meaningful way, by putting an audit requirement around it when we were struggling to, you know, I think we should be heading towards that. But I think the [reporting] standards have got to catch up first. Otherwise, it's just too hard at the moment. I think boards should be encouraged to say, Well, if you're putting this stuff in your annual report, where do these numbers come from? And it makes sense to get somebody to look at that for you to give you independent comfort over those. (AC 10)

I'm going to tell you the biggest issue in the sustainability area is, there are just so many different requirements all over the place. So you've got the TCFD, you've got the SASB, you've got the GRI you've got the scientific based target initiative. You've now got the ISSB. Because at the moment, , you say, well, listen, guys, do we have to comply with every one of these? I mean, can't we go to the highest common denominator or do something... (AC 18)

There were also concerns about the quality of the current systems and processes

The big question in my mind is the quality of the systems that will be available within the company to be able to collect and analyse the data and then report on it. We are at the very early stages of producing quality sustainability data, because the systems are very old legacy systems within the company. ...And the problem with having them, depending on what the standards eventually introduced, having them subject to assurance is that it will go to the quality of the data and the systems that collect all of that. And then if it identifies that, something we already know, that the data is not in a good format, or it's poor quality, or it's inconsistent, or it's not picked up across every piece of the operations of the company. What does the auditor who's doing the assurance now do about that? You end up with a qualified audit report as a consequence. And if that was the case, I think that would be a bad outcome. (AC 11)

Boards currently considering the further evolution of assurance processes.

Whilst there was recognition of the need for assurance, there is commonly a current discussion at Board level of the assurance processes in place. This is reflected in the following quotes:

At the moment, this will change but at the moment, it's actually a discussion between management and the auditor. Off the back of an objective having been set by the board that there be some level of assurance. It's not as well connected as it could be, but it will be in the future. (AC 1)

Not fully, there are elements that are assured. But we are looking to do more assurance going forward... So yeah, it's an evolving area, this one but we are planning to do it if we don't do it already. (AC 18)

Some of my fellow board members instantly go to, we want external assurance on it, because that feels like the safest way of meeting their own director obligations. I was happy to support the management team around look, I think there will be a time we want external assurance, but at this point, we're still I think we need to hear from management, how they're putting together all this and what they're doing and what the level because we don't have external assurance on every single matter we report externally. (AC 21)

Concerns about current assurance practices.

There were some concerns around the value associated with current assurance practices. Some valued assurance, others less so, for the reasons described in the following quotes

There's a bit of assurance. I question the value of it to be honest. I know that as we move to more consistent frameworks of reporting, there's a push for assurance over those frameworks, I have some hesitancy about it. You know, so much this information is derived from non-double entry systems, high degree of judgement associated with many of the items, Scope 3 for instance. Other than a party telling you that, from an agreed upon procedures point of view that a equals b, I don't place a great degree of reliance on that sort of quality of assurance by a third party, you can have people within the organisation that can do exactly the same thing. (AC 1)

I am quite comfortable with external assurance. And the more of it that can realistically be done, I think, the better. The question is, where's the balance as to whether the assurance is really just checking you said A equals B and B equals C, therefore A equals C and I have followed your formula and your formula works? Or is it a genuine assurance of an outcome? So I think we need to be mindful of what's the additional quality that comes from assurance that to the extent that it can be there, then I think from a board perspective, we're comfortable to see it. ... Whether we will be any better off as a result. I'm not sure also, we need to have a bit of judgement that underlies that. (AC 3)

I don't think it's quite the same as a financial report. ... you've got a balance sheet, you've got the P&L, it all fits together, all the bits need to fit together, then the notes get broken out. And it's all disclosures and all that stuff. And you kind of have to audit the whole to make sure it all makes sense. Whereas this is lots of different information. As I said, it can be the number of women in senior roles, it can be this, it can be that and so I think you did you need to look at what could be material risk of misleading stakeholders? And what level of assurance do we need around this? And I, I hope we get to a point where it's more risk based. (AC 12)

Choice of assurance provider

On the whole, ACC's perceived benefits around the incumbent financial statement auditor also providing this assurance (because of their knowledge of business, systems and processes). However, some ACCs still see roles for other assurance providers. The level of integration of sustainability information into the Annual Report and desire not to deal with a broad range of assurance providers also drove the use of the incumbent auditor.

I think we will get [our financial statement auditor] to do the sustainability report as well. Largely because there's a degree of overlap I think, efficiency that can come with that in understanding the organisation.. (AC 3)



In terms of providing assurance, I want the numbers to come from a reliable source as well and somebody who understands our systems. And I don't want to deal with another firm at the depth of trying to finalise the annual report. So we need to be all integrated, from my perspective. (AC 10)

I think the key thing for me is your financial auditors are in there, getting to know who the people are in the organisation, the systems and the processes and how things work. And so they already know the organisation and there should be an amount of scepticism that should be able to be applied. And then ... even though it's non financial information, a lot of the information is coming from similar systems, so they really tried to do it on an integrated basis. So if you're testing, say payroll dollars, through the same system, you'll be gathering information about gender or pay gaps or what have you. You just are extending your audit work to cover the nonfinancial now (AC 19)

Another reason observed was desire for independence from your assurance provider, as other firms are often conflicted by their providing other services

So my inclination is quite strongly that it should be the same auditor, you know, you want you want that independent assurance. And you want somebody who understands and knows, knows the organisation and has no interest in being other than independent. Right. So if I was to put that a different perspective, at [name] there's only four big firms. I want one of them to be independent, to provide relevant, independent assurance, the others are too deeply involved in the business to provide that independence (AC 16)

One ACC described a past explicit decision to use another accounting firm, because of concerns over the level of non-audit to audit services, although this concern was seen to be waning over time. Although not commented on by the ACC, this may be because of the benefits of using the same assurance provider, or because of recent discussions which draw the distinction between assurance services and non-audit services, including the classification fees for assurance services.

So it's typically been done by another audit firm. That got driven in part because our company auditor had been involved when we were doing acquisitions and other things. And we started to push up against a Non-Audit Services ratio. And so we actually moved quite deliberately to introduce another audit firm so that we could bring that ratio down. Again, I'm not really sure that's the right outcome. But the truth was, at the time, proxy advisors in particular, were really recommending against supporting resolutions of companies, AGMs if that Non-Audit Services ratio was too high, I think we've, you know, I think that settled a little bit. My preference would be that the company auditor did it. (AC 7)

However the choice of incumbent auditor is not necessarily seen to eliminate the use of other assurance providers, as evidenced by the following quote:

I don't necessarily see it eliminating those parties who were previously doing discrete pieces of work on your risk of modern slavery in your supply chain or something and that your external auditor won't necessarily and this will be to what extent they can rely on that work, but they will, my belief at the moment is that they would look at that as part of the control framework around getting that data and then they would just make sure that that data was complete and that it was reported properly (AC 21)



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