INSTITUTE OF CHARtered ACCOUNTANTS AUSTRALIA

The Institute represents accounting and business professionals in Australia and around the globe. Members strive to uphold financial integrity through a commitment to ethics and acting in the public interest.

We focus on educating candidates through the Chartered Accountants Program and engage in advocacy and thought leadership underpinned by our members’ knowledge and experience. We influence a range of policy areas impacting the Australian economy and domestic and international capital markets.

At 30 June 2014, the Institute was in the process of amalgamating with the New Zealand Institute of Chartered Accountants, with the vision of becoming the trusted leaders in business and finance.

The new Institute – Chartered Accountants Australia and New Zealand – will have more than 100,000 members, giving us greater scale and influence on the world stage.

We are on the Board of the International Federation of Accountants, and are connected globally through the 800,000-strong GAA and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

charteredaccountants.com.au

DISCLAIMER
The Quality Review Program is not an audit of the practices or files of any members of the Institute of Chartered Accountants in Australia. By conducting the Quality Review Program and reviewing particular members in the course of the Quality Review Program, the Institute is not certifying or representing that the work done or the opinions given by the member generally, or for particular clients or on particular files, is correct or of a high or any particular standard. The Institute expressly disclaims all liability for any loss or damage arising from any reliance upon the fact that the Institute conducts the Quality Review Program or has reviewed a particular member in the course of the Quality Review Program, or upon any annual reports, overviews, reports on particular members or practices, or other materials produced by the Institute regarding or in connection with the Quality Review Program.

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The Institute is committed to upholding the high standards of the Chartered Accounting profession.

We undertake this responsibility within the co-regulatory framework in Australia, which also comprises regulators and standard-setters.

Our Quality Review Program (the Program) is an important component of our professional compliance framework, which is designed to ensure members uphold the high educational, professional and technical standards expected of Chartered Accountants and demanded by stakeholders, clients and broader society.

This Quality Review Report 2014 summarises the results of the Program for the past financial year, based on quality reviews of practices ranging in size from national partnerships to sole practitioners. In the interests of transparency and confidentiality, we report only aggregated data, trends and issues arising from the findings.

To improve compliance with professional standards and regulatory requirements, we work closely with members through the quality review process to address any issues. We also analyse the collective results of quality reviews to tailor our resources and services to members, to promote continuous improvement, and incorporate results and trends in our advocacy work with regulators and standard-setters.

I would like to acknowledge the Quality Review Committee and the dedication of the Program reviewers. Their professionalism in reviewing practices, while offering technical and peer support is central to the success of the Program. This approach is also imperative to maintain the trust and confidence of members and their clients, regulators and other stakeholders, and assists us in upholding our members’ reputation as trusted leaders in business and finance.

With the upcoming establishment of Chartered Accountants Australia and New Zealand, we will work towards aligning our quality review programs.

Mel Ashton FCA
President
Institute of Chartered Accountants Australia
Executive summary

The Quality Review Program (the Program) is an integral component of the Institute’s professional compliance framework, operating within the accounting profession’s co-regulatory environment. Through quality reviews we work with our practitioner members to uphold and improve the standard of professional service they provide to their clients.

The Program assesses whether our practitioner members have implemented appropriate quality control policies and procedures in their accounting practices. Where these policies and procedures are not sufficiently robust to maintain compliance with standards and legal requirements, we work with individual practices to remediate problem areas. Importantly, we also use the knowledge gained from this process to promote continuous improvement throughout the accounting profession.

Quality reviews are tailored to the size and nature of the practice under review. Practices that are subject to comprehensive internal reviews and ASIC audit inspections are reviewed using an online assessment of the firm’s commitment to audit quality. For other practices a reviewer appointed by the Institute visits the practice to assess their quality control system and conduct engagement file reviews. All reviewers are experienced practitioners who have professional expertise in the type of engagements conducted by the practice under review.

TRENDS AND RESULTS 2013–2014

In the interests of transparency, we report the summarised findings from reviews to our members, regulators, standard-setters and the general public. In summary:

- 410 practices were reviewed during the year (406 in 2012–2013)
- 79% of practices were assessed as having either met all the relevant professional standards and regulatory requirements or showed levels of non-compliance that were not regarded as significant. These practices have undertaken to address any areas of non-compliance
- 21% of practices were assessed as having issues of non-compliance that were regarded as significant and were required to address these as a matter of urgency, prior to a follow-up review by the Institute
- Practices that had significant non-compliance issues from the prior year have been re-reviewed. The re-reviews revealed that all areas of non-compliance had been adequately addressed in all but one practice. This practice is no longer conducting engagements in the area of concern. We will continue to monitor this practice’s activities.

We measure the effectiveness of the Program by closely monitoring the results of reviews, both in terms of the number and the significance of non-compliance issues that arise during reviews. These results are included in this report. We also measure the effectiveness of the Program in terms of the remediation implemented by practices to address any non-compliance revealed during their review.

CONTINUOUS IMPROVEMENT

The Institute takes the view that non-compliance is preventable and works in three key ways to promote continuous improvement. We:

- Work closely with members to remediate their policies and procedures
- Analyse review results in detail to direct Institute resources and services where they are most needed and to promote continuous improvement across practices
- Use the results and issues arising from the Program to inform our advocacy with regulators and standard-setters.

ADDRESSING AUDIT QUALITY

Audit quality, and the role of the Institute and practitioners in upholding audit quality, has been under the spotlight in recent years. For this reason reviewing and reporting on assurance engagements is a key focus of the Program. The Institute liaises closely with ASIC on the conduct and outcomes of these reviews.

OUR FOCUS AREAS FOR 2014–2015

- Analyse root causes of quality control deficiencies and work with individual members and through other Institute activities to address these root causes.
- Continue to liaise closely with ASIC on auditor and liquidator quality, and build these findings into quality reviews and other Institute activities.
- Refine the review approach as we continue to roll out reviews for insolvency and financial planning practices, based on the pilot reviews conducted to date.
- Pilot online reviews of micro practices that conduct assurance engagements.
- Move towards aligning the quality review programs in Australia and New Zealand.
About the Institute’s Quality Review Program

The Australian accounting profession exists within a co-regulatory environment. This means the Institute works with other bodies in Australia and internationally to regulate and govern the work of Chartered Accountants. The co-regulatory environment is illustrated in Appendix 1. The Program is an integral part of this co-regulatory environment, maintaining quality within the profession and retaining the Institute’s position as a leading professional accounting body.

The Program’s role is to work with our practitioner members to uphold the quality of the services they provide to their clients. To achieve this objective the Program is informed by a range of external and internal factors and the outcomes of the Program are instrumental in informing a range of Institute activities, including liaison with regulators, as illustrated below:

**QUALITY REVIEW FRAMEWORK**

**EXTERNAL**
Information sourced from:
- ASIC inspection reports and focus areas
- Other regulator public reports
- IFAC reports and requirements
- Quality assurance reports of overseas accounting bodies
- Standards and legislation.

**INTERNAL**
Information sourced from:
- Public practice advisory committee
- Audit advisory committee
- Institute risk management report (claims data)
- Feedback and queries from members in practice
- Professional Conduct investigations.

**QUALITY REVIEW PROGRAM**
- Conducts quality reviews
- Works with individual members to remediate problems areas
- Promotes appropriate tools and resources to assist practitioners remediate specific areas
- Refers practitioners to other internal and external resources as appropriate.

**KEY EXTERNAL STAKEHOLDERS:**
- Regulators and other bodies:
  - ASIC
  - ATO
  - FRC
  - IFAC
  - PSC
- Standard-setters
- Members in practice.

**KEY INTERNAL STAKEHOLDERS:**
- Tools and product development
- T&D development
- CA Program
- Other Institute compliance teams (e.g. Professional Standards)
- Institute advocacy teams
- Institute committees and board.

External and internal dissemination of information from the Program:
- Quality review annual report
- T&D
- Institute news and magazine
- Tools and resources.
MEASURING THE EFFECTIVENESS OF THE PROGRAM

We measure the effectiveness of the Program by closely monitoring the results of reviews, both in terms of the number and the significance of non-compliance issues that arise during reviews. These results are included in this report. We also measure the effectiveness of the Program in terms of the remediation implemented by practices to address any non-compliance revealed during their review.

FREQUENCY OF REVIEWS

The Program is a risk-based model with an overall objective of reviewing eligible practices at least once every five years.

FIVE YEARS
No systemic risk factors

THREE YEARS
Sign-off on audits requiring RCA registration

WITHIN ONE YEAR
Re-review for practices with significant non-compliance issues

FREQUENCY DEPENDENT ON RISK ASSESSMENT

The frequency of reviews is increased for two key risk factors:

- Practices that sign-off on audits requiring a Registered Company Auditor (RCA) registration sit within a three-year rather than five-year program. This reflects the higher level of public accountability incumbent in these audits. In conducting reviews of RCAs, the Institute will consider ASIC’s inspection findings (where available) and modify the timing and scope of its reviews as a result
- If significant non-compliance issues are revealed during a review, the practice is reviewed again within one year to ensure appropriate remedial action has been implemented by the practice.

WHAT HAPPENS DURING A QUALITY REVIEW?

All reviews have the same objective; to assess whether a practice has implemented an appropriate system of quality control, as set out in APES 320: Quality Control for Firms and ASQC 1: Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements.

These standards require practices to address the following elements of quality control:

- Leadership responsibilities for quality within the practice
- Ethical requirements, including compliance with APES 110: Code of Ethics for Professional Accountants (Code of Ethics)
- Acceptance and continuance of client relationships and specific engagements
- Human resources
- Engagement performance, including compliance with relevant standards and/or legislation
- Monitoring.

To achieve this objective we apply a variety of review approaches, tailored to the differing sizes, structures and engagements of practices.
### Types of Reviews

<table>
<thead>
<tr>
<th>Audit Practices of Major and Mid-Tier Firms</th>
<th>Other Practices</th>
<th>Specialist Practices</th>
<th>Sole Practitioner</th>
</tr>
</thead>
<tbody>
<tr>
<td>(with internal review processes and subject to ASIC inspection)</td>
<td>Mid-tier and smaller practices</td>
<td>Insolvency practice/Financial planning practice</td>
<td>Conducting a micro practice</td>
</tr>
<tr>
<td>• Analysis of the drivers of audit quality in the firm</td>
<td>• Reviewer: – Examines the practice’s manuals and working papers to evaluate the quality control system – Reviews a cross section of engagement files to assess whether quality control policies and procedures are being implemented</td>
<td>• Review conducted by a specialist reviewer • Approach tailored to the speciality</td>
<td>• Eligible for a self-assessment review • Online review of micro practices that conduct assurance engagements to be piloted in 2014–2015</td>
</tr>
<tr>
<td>• Utilise ASIC reviews of audit engagement files</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

### Review of Audit Quality in the Audit Practices of Major and Mid-Tier Firms

Reviews of the audit practices of major and mid-tier firms have been conducted over the past three years, applying an online quantitative audit quality survey to assess the perceptions of various respondent groups on the firms’ commitment to the drivers of audit quality.

Firms eligible for this approach must already be subject to a rigorous and enforceable program of file reviews by:

- Being subject to ASIC’s Audit Inspection Program; and
- Conducting their own national and/or international reviews.

By focusing on audit quality rather than duplicating existing file reviews, the Institute adds value by investigating and comparing across firms the auditors’ mindsets in relation to the key drivers of audit quality. To achieve this objective we use a tailored, online quantitative survey seeking the views of partners, managers and qualified staff on the key drivers of audit quality:

1. The culture within the firm
2. The skills and personal qualities of audit partners and staff
3. The effectiveness of the audit process
4. Factors outside the control of the firm
5. The reliability and usefulness of audit reporting.

Graduates, being the future of the profession, are also surveyed in relation to skills and personal qualities. A more in-depth explanation of these drivers of audit quality is included in Appendix 2.

From the responses we compile a masked report for each firm, as the focus firm, benchmarked to the other firms. This provides firms with insights into the effectiveness of their quality systems, assisting them to promote internal attitudes towards audit quality and target any areas with room for improvement.

### Reviews of Other Mid-Tier and Smaller Practices

Reviews of other mid-tier and smaller practices are conducted by a reviewer visiting the practice and examining the practice’s manuals and workpapers across all types of engagements conducted by the practice. The reviewers base their reviews on questionnaires developed by the Institute, tailored to reflect the standards and regulatory requirements relevant to the specific engagements conducted by the practice (questionnaires are available on the Institute website). This enhances the transparency of the Program, as well as providing a tool for practices to use for their own internal reviews between Institute visits.
Reviewers add best practice suggestions to their report, thereby adding value to the review process. Most practitioners regard Institute reviews as an opportunity to continuously improve their practice as well as monitor compliance.

Reviewers focus on assessing whether practitioners have applied policies and procedures that appropriately reflect standards and legislation in conducting engagements, rather than directly assessing the appropriateness of the opinions issued, or the advice provided, by Institute members. After reviewing an engagement, reviewers come to an opinion as to whether there is any indication that:

- The engagement was not conducted in accordance with relevant professional standards and legislation
- The working papers are inadequate or insufficient.

For audit engagements the reviewer assesses whether there is any indication that:

- The audit was not conducted in accordance with Australian auditing standards
- The audit opinion was not based on sufficient and appropriate audit evidence.

Once the reviewer has completed their review, the outcome is presented to the practice in two ways:

- The reviewer presents a report of their findings to the practice. Practitioners are encouraged to comment on these findings, which are then returned to the Institute together with the completed review questionnaires
- Based on the reviewer’s report and the practice’s comments, the Institute prepares and sends the practice a review results letter. This letter falls into one of four categories, and explains to the practice any departures from standards and/or legal and regulatory requirements and the remediation action required.

If these practices offer a range of services such as audit, compilation, tax and insolvency, then all these services are included in the review.

### OUTCOME OF REVIEWS

<table>
<thead>
<tr>
<th>REVIEW RESULTS LETTER</th>
<th>REMEDIATION</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NO DEPARTURES FROM PROFESSIONAL STANDARDS</strong>&lt;br&gt;This applies to practices where the quality control policies and procedures appear adequate to ensure compliance with professional standards and regulatory requirements.</td>
<td>Following the review, we do not require the practice to take any further action as it appears there are adequate quality control procedures in place in the practice.</td>
</tr>
<tr>
<td><strong>DEPARTURE(S) FROM PROFESSIONAL STANDARDS, NOT CLASSIFIED AS SIGNIFICANT</strong>&lt;br&gt;This applies to practices where quality control policies and procedures appear substantially adequate to ensure compliance with professional standards and regulatory requirements, and the policies and/or procedures appear to be generally adhered to. An example of a departure is where a practice has implemented and documented its quality control system, but needs to improve some relatively minor aspects of this.</td>
<td>We require the practice to confirm to us in writing that the issues identified in the review results letter have been addressed. Members are referred to guides/advice to help address the issues that were identified.</td>
</tr>
<tr>
<td><strong>FOLLOW-UP REVIEW REQUIRED</strong>&lt;br&gt;This indicates the practice’s quality control policies and procedures may be insufficient to ensure compliance with professional standards and/or regulatory requirements, and/or existing policies and procedures have not been adhered to. An example of a departure is where the practice has not documented its quality control policies and procedures.</td>
<td>The practice is required to develop an action plan within two months to outline how the issues identified are being addressed. A follow-up review is conducted within 12 months. If the action plan is not provided within the timeframe or it has not been adequately implemented at the time of the follow-up review, the practice will be referred for investigation.</td>
</tr>
<tr>
<td><strong>REFERRAL TO THE INSTITUTE’S DISCIPLINARY PROCESSES FOR INVESTIGATION</strong>&lt;br&gt;This indicates a fundamental breach of standards and is referred to the Institute’s Professional Conduct team for investigation. The reviewer may also recommend referral for investigation where there appears to be a fundamental deficiency in the procedures or ethical behaviour of a practitioner or practice.</td>
<td>The practice is referred to the Institute’s Professional Conduct team for investigation.</td>
</tr>
</tbody>
</table>
**SPECIALIST PRACTICES**
Reviews of specialist practices are conducted by following the same procedures as for other practices, tailored to the specialty of the practice by appointing specialist reviewers and using questionnaires tailored to the relevant specialty.

- Chartered Accountants who are liquidators and administrators are typically also members of the Australian Restructuring Insolvency & Turnaround Association (ARITA). To review these members effectively, the Institute and ARITA work cooperatively. Reviews are conducted by specialist insolvency reviewers under the auspices of the Institute’s Program, with technical input from ARITA. Building on our initial pilot we have now extended the Program to all our practitioners who conduct insolvency practices. These reviews are accepted by both bodies as satisfying the professional obligations of their members.

- Specialist financial planning practices, operating either under their own Australian Financial Services Licence (AFSL) or as an Authorised Representative, are also subject to review where one or more practitioners in the practice is required to hold a Certificate of Public Practice. Our reviews focus on the quality control systems in these practices, as there are currently no professional standards pertaining to these engagements.

**MICRO PRACTICES**
We are redefining our review approach for very small practices that conduct assurance engagements, to align with our international obligations to the International Federation of Accountants (IFAC), as outlined in *Statement of Membership Obligations 1: Quality Assurance* (SMO 1). This approach will use online questionnaires tailored to the type and size of assurance engagements typically conducted by micro practices.

**GOVERNANCE**
The strategic direction and content of the Program is monitored by the Institute’s Quality Review Committee (the Committee), which comprises Chartered Accountants and non-members. The Committee includes a quality reviewer and practitioner members from a cross-section of public practices, varying in size, specialisation and geographical location. The Committee also includes an accounting academic and two non-members who are independent of the profession and the membership, to represent the public interest and to increase the robustness of the Program.

**LIMITATIONS OF THE PROGRAM**
There are a number of limitations including:

- A review is conducted on a professional basis. It is not an investigation as the Institute does not have legal power to obtain information, including details of clients, which is not publicly available.

- Our members provide us with information as to who their clients are. We cross reference this information to publicly available information for auditors of public listed companies and to ASIC Annual Statements for Corporations Act (2001) audits, and for auditors of SMSFs to the SMSF auditor register. For non-audit clients we rely on information from the practice as this information is not publicly available.

- Prior to reviewing a client’s file, the practice is required to obtain written permission from the client. This is due to the duty of confidentiality owed by our members to their clients; we do not have the legal power to access information without the client’s written consent. Accordingly, the practice is aware of the files that the reviewer will review prior to client consent having been obtained and the files becoming available for review. We continue to encourage members to seek permission for file reviews from their clients in the initial terms of engagement.

Throughout a review, or at any other time, practitioners are welcome to contact the Quality Review team, managed by Assunta Corbo FCA, to discuss any queries or issues.
In the interests of transparency, we report our findings to our members, regulators, standard-setters and the general public. While individual practices are not identified in this report, the trends, issues and results of reviews are summarised as the basis of these findings.

During the 2013–2014 financial year we reviewed 410 practices.

The proportion of practices reviewed in each size category reflects the approximate distribution of practices by size across the Institute as a whole. The only exceptions are in relation to Big 4 and mid-tier firms, which are reviewed periodically as a group.

**AUDIT QUALITY RESEARCH**

Our innovative initiative which involves researching the mindset of auditors and assessing perceptions around the key drivers of audit quality in the major firms continued in the 2013–2014 financial year:

- Five major firms completed the survey in 2011–2012 and a further six firms in 2013
- The research findings were provided to the individual firms, benchmarked against masked data for the other participating firms. This provided them with valuable information, enabling them to identify and understand the mindsets and attitudes of their audit partners and staff as the basis for improving audit quality

**Trends and results 2013–2014**

The firms are using the data for root cause analysis to focus on areas for enhancement. Firms in the earliest round of research have progressed this through action plans

The overall findings show a strong commitment to audit quality among firms with varying challenges in promoting the consistent application of culture and policies.

**OUTCOMES DURING 2013–2014**

- Findings were further analysed and discussed for the six firms who participated in the 2013 research.
- This was complemented by Elite Forums in May 2014 for senior partners from all 11 firms who participated in the research.
- Summarised findings from the research were released by the Institute in the form of an audit quality research infographic.
- We continued to publicise summarised findings to promote audit quality throughout the whole audit profession, as outlined later in this report.
**REVIEWS OF OTHER MID-TIER AND SMALLER PRACTICES**

Reviews of other mid-tier and smaller practices involve a review of the practice’s quality control system and file reviews to establish whether the practice’s quality control policies and procedures are being implemented on engagements. Results of reviews completed during the year fell into the following categories:

**REVIEW RESULTS**

![Graph showing review results]

The Institute takes the view that any non-compliance is preventable and works in three key ways to promote continuous improvement:

- Working closely with individual practices to remediate their policies and procedures
- Analysing review results in detail to direct Institute resources and services where they are most needed and to promote continuous improvement
- Using the results and issues arising from the Program to inform our advocacy with regulators and standard-setters.

**SIGNIFICANT AREAS OF NON-COMPLIANCE**

Practices assessed as having issues of non-compliance regarded as significant are required to address these issues and undergo a follow-up review within 12 months.

During the 2013 – 2014 financial year 21% of practices reviewed were assessed as having issues of non-compliance regarded as significant, compared with 20% in 2012 – 2013. These issues are summarised in the table below.

<table>
<thead>
<tr>
<th>Reason giving rise to follow-up review</th>
<th>% of practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Practice had not documented its quality control system</td>
<td>13/14 12/13 11/12</td>
</tr>
<tr>
<td>Practice had not documented its quality control system and significant non-compliance issues were apparent in:</td>
<td></td>
</tr>
<tr>
<td>- Non-Corporations Act assurance engagements</td>
<td>40% 38% 36% 28% 13% 22%</td>
</tr>
<tr>
<td>- Corporations Act assurance engagements</td>
<td></td>
</tr>
<tr>
<td>- Insolvency engagements</td>
<td></td>
</tr>
<tr>
<td>Practice had documented its quality control systems however these were not adequately implemented as significant non-compliance issues were apparent in:</td>
<td></td>
</tr>
<tr>
<td>- Non-Corporations Act assurance engagements</td>
<td>28%</td>
</tr>
<tr>
<td>- Corporations Act assurance engagements</td>
<td>13% 22%</td>
</tr>
</tbody>
</table>

Practices are reviewed in a three or five year cycle (see page 8) so the results included in this report for the past three years relate to different accounting practices. Therefore care needs to be taken interpreting the results as the practices, and the engagements reviewed, are not necessarily comparable.
FOllow-up Reviews Conducted
In 2013 – 2014
Those practices that had significant non-compliance issues from the prior year have been re-reviewed. The re-reviews revealed that all areas of non-compliance had been adequately addressed in all but one practice. This practice is no longer conducting engagements in the area of concern. We will continue to monitor this practice’s activities.

Where a practice does not adequately address the areas of non-compliance, they may be referred to the Institute’s disciplinary processes for investigation.

Common Non-compliance Issues
Having established these top-line figures, we look deeper into the review results to establish any patterns of non-compliance. The number and significance of non-compliance issues, and the level of remediation, has remained fairly consistent over recent years. Given the increasing complexity of the regulatory environment, and ‘raising the bar’ within the Program as it has evolved from an educational focus to a compliance-based approach, this demonstrates the commitment and investment in quality by the vast majority of our practising members and the Institute.

In the section below we break down common non-compliance issues into categories.

Quality Control Policies and Procedures Throughout the Practice
Most practices have adapted to the requirement to maintain documented quality control policies and procedures and the results for the current year indicate this trend is continuing. Commonly, practices need to refine their quality control systems by improving aspects of their documentation. However when practices are not documenting quality control policies and procedures they are required to undergo a follow-up review within a year.

To assist members the Institute has updated and enhanced the Quality Control Guide, providing sample policies and procedures that members can use in applying all the components of quality specified in the standards APES 320 and ASQC 1.

Training and Development
Our reviews revealed the number of practitioner members failing to meet requirements regarding minimum required hours of training and development (T&D) has remained fairly consistent with prior years. There is higher non-compliance in respect of their statutory registrations.

Under Institute by-laws, members are required to complete a minimum of 120 hours of T&D on a three-year basis. As part of their T&D hours, they must complete 40% of their hours in each of their specialist areas. SMSF auditors must dedicate at least 30 hours of their T&D to professional development activities relevant to auditing SMSFs in each three-year period.

The Institute endeavours to supply sufficient opportunities for a member to undertake adequate and appropriate T&D activities, including interactive online training through LiveOne, accessible by members from any location, including in recorded form.

When a shortfall in hours has been identified, the Institute contacts the member to ensure the shortfall is addressed. A member may be excluded from membership of the Institute if they fail to meet their T&D requirements for two consecutive years.

Non-compliance with APES 320 and ASQC 1

- A system of quality control does not appear to have been implemented and/or documented
- A system of quality control has been documented but does not address all the elements required by APES 320/ASQC 1
- No annual written confirmation of compliance with independence requirements

Non-compliance with T&D Obligations

- Minimum required hours of T&D not completed
- Minimum required hours of T&D in respect of one or more statutory registrations not completed
- Minimum required hours of T&D as set out in the Competency Requirements for Auditors of Self-Managed Superannuation Funds (SMSF) not completed

To further enhance compliance, the Institute wrote to all CPP holders in March 2014, reminding them of their T&D obligations in accordance with R7: Regulations Relating to Training and Development.
AUDIT

Results show a small improvement in compliance with a number of auditing standards, reflecting the commitment of practices to improving audit quality. For most of the issues shown in the table below, the procedure had been completed (e.g. an audit strategy prepared) but not all the requirements of the standards had been applied.

In many instances where inadequate documentation occurred, the member indicated sufficient audit work had been completed in accordance with Australian auditing standards, but it had not all been documented. The Institute takes the view that if the work is not documented, it does not constitute sufficient appropriate audit evidence, and so the matter is reported as non-compliance.

Documentation is critical as:
• It provides evidence that the audit was adequately performed in accordance with Australian auditing standards
• It provides a record of the basis for conclusions, including the auditor’s report
• It is mandatory under the legally-enforceable Australian auditing standards.

Under the standards, the test of sufficient documentation is whether another auditor, with no prior knowledge of the engagement, can review and evaluate the audit and understand how the conclusions were reached. This is the approach taken by our reviewers.

For the majority of practices that have fully documented their audit work, the reviewer will also consider whether this evidence is appropriate as outlined in the auditing standards. At the end of reviewing an audit engagement, the reviewer assesses whether there is any indication that the audit opinion was not based on sufficient and appropriate audit evidence.

Reviews were split as follows:

<table>
<thead>
<tr>
<th>TYPE OF ENTITY REVIEWED (audit/assurance files only)</th>
<th>% OF AUDIT FILES REVIEWED</th>
</tr>
</thead>
<tbody>
<tr>
<td>Listed entity</td>
<td>2%</td>
</tr>
<tr>
<td>Non-Corporations Act</td>
<td>25%</td>
</tr>
<tr>
<td>Corporations Act (excluding listed)</td>
<td>25%</td>
</tr>
<tr>
<td>SMSF</td>
<td>48%</td>
</tr>
</tbody>
</table>

BASIS OF AUDIT FINDINGS

These results came from the review of audit engagement files constituting audits of a range of entities:
• Public listed entities
• Non-listed public companies (including companies limited by guarantee)
• Large proprietary companies
• Small proprietary companies
• SMSFs
• Incorporated associations
• Non-corporate disclosing entities
• Other incorporated bodies
• Solicitor’s trust accounts
• Real estate agent trust accounts
• Other.

NON-COMPLIANCE WITH AUDITING STANDARDS

The reviews revealed a small decrease in the number of departures noted from over half of the auditing standards. This reflects practitioners’ continuing efforts to fully implement the many requirements of the standards. Despite this improvement in compliance with individual standards, our findings reveal a slight increase in the number of practices conducting audits where issues of non-compliance regarded as significant were found. This reflects the fact that non-compliance with auditing standards as reported below is based on a review of individual engagement files, while the overall assessment of the practice takes into account practice-wide quality control policies and procedures.

ASA 210: Agreeing the Terms of Audit Engagements
• No engagement letter
• Engagement letter does not contain all required information
• Recurring audit: need for revised engagement letter not assessed
• Auditor did not establish preconditions for audit

ASA 220: Quality Control for an Audit of a Financial Report and Other Historical Financial Information
• No evidence regarding compliance with independence requirements
• Workpapers don’t show evidence of engagement partner review

ASA 230: Audit Documentation, and
ASA 500: Audit Evidence
• Audit documentation exists but does not constitute sufficient audit evidence to support the audit opinion

<table>
<thead>
<tr>
<th>% OF PRACTICES</th>
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<tbody>
<tr>
<td>0 10 20 30 40 50 60</td>
</tr>
<tr>
<td>13/14 12/13</td>
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<td>13/14 12/13</td>
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<tr>
<td>13/14 12/13</td>
</tr>
<tr>
<td>13/14 12/13</td>
</tr>
</tbody>
</table>

Institute of Chartered Accountants Australia | 15
**Non-compliance with Auditor Independence Requirements**

**ASA 240: The Auditor’s Responsibilities Relating to Fraud in an Audit of a Financial Report**
- No enquiries made and documented with regard to fraud
- Engagement team did not discuss risk of material misstatement including from fraud and related parties
- No presumption of risk of material misstatement due to fraud in revenue recognition
- Insufficient enquiries made and documented with regard to fraud
- Insufficient evidence that the engagement team discussed risk of material misstatement including from fraud and related parties

**ASA 300: Planning an Audit of a Financial Report**
- Audit strategy and/or audit plan not documented
- Audit strategy and/or audit plan insufficiently documented

**ASA 315: Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment, and Analytical Procedures**
- No analytical review performed and documented as risk assessment
- No documentation of internal control
- No analytical review performed and documented prior to forming an opinion on the financial report
- Insufficient analytical review performed and documented as risk assessment
- Insufficient documentation of internal control
- Insufficient analytical review performed and documented prior to forming an opinion on the financial report

**ASA 320: Materiality in Planning and Performing an Audit**
- No materiality determined for financial report as a whole
- Performance materiality not determined for the engagement

**ASA 500: Analytical Procedures**
- No analytical review performed and documented as risk assessment
- No documentation of internal control
- No analytical review performed and documented prior to forming an opinion on the financial report
- Insufficient analytical review performed and documented as risk assessment
- Insufficient documentation of internal control
- Insufficient analytical review performed and documented prior to forming an opinion on the financial report

**ASA 560: Subsequent Events**
- No subsequent events review documented
- Insufficient subsequent events review documented

**ASA 580: Written Representations**
- No written management representations to support other evidence, re: fraud, laws and regulations
- No written representations regarding management’s responsibility for the financial report

**APES 110: Code of Ethics for Professional Accountants**
- No documentation or inadequate documentation when considering threats to independence; safeguards exist but not fully documented
- Appropriate safeguards were not adequately applied when carrying out audit and accounting functions for a client
- Auditing the SMSF of a partner in the practice
OTHER PRACTICE AREAS
We found compliance with standards governing practice areas, other than audit, still revealed areas of weakness. Although the level of non-compliance remains a concern following the introduction of new standards in particular, we are pleased to see the level of non-compliance reducing. We continue to assist members by being proactive in alerting them to changes and providing tools to assist in the transition to new standards.

NON-COMPLIANCE WITH OTHER STANDARDS

<table>
<thead>
<tr>
<th>APES 205: Conformity with Accounting Standards</th>
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</thead>
<tbody>
<tr>
<td>• Financial reports prepared by the practice do not clearly state that they are special purpose and/or the special purpose financial reports did not clearly identify significant accounting policies</td>
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</table>

<table>
<thead>
<tr>
<th>APES 305: Terms of Engagement</th>
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</thead>
<tbody>
<tr>
<td>• Compilation reports not in accordance with APES 315</td>
</tr>
<tr>
<td>• Financial reports prepared by the practice do not always clearly state that the financial information has not been audited</td>
</tr>
<tr>
<td>• No acknowledgement was obtained from the client of their responsibility for the reliability, accuracy and completeness of accounting records and disclosure of all relevant information</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>APES 315: Compilation of Financial Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Compilation reports not in accordance with APES 315</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>APES 325: Risk Management for Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>• A risk management framework has not been documented or adequately documented.</td>
</tr>
</tbody>
</table>

RISK MANAGEMENT
APES 325: Risk Management for Firms requires firms to identify, address and document key risks within their practice. The Institute has developed a risk management framework tool to assist members in meeting the requirements of APES 325, available free of charge to members on our website.

INSOLVENCY PRACTICES
Consistent with prior years, the number of insolvency practices reviewed this year was low compared to other practice types. Our findings show that insolvency practices are still working on improving their compliance with mandatory requirements to ensure that:
- Remuneration reports contain all appropriate and relevant information
- A declaration of independence, relevant relationships and indemnities is tabled and contains all appropriate and relevant information
- Administration and appointment checklists provide sufficient evidence that appropriate work has been performed.

FINANCIAL PLANNING PRACTICES
Although APES 230: Financial Planning Practices did not come into effect until 1 July 2014, we took a proactive approach by commencing reviews of practices providing financial planning services in 2013. Our reviews had two aims:
- EDUCATION: To ensure practices were aware of their obligations under soon-to-be-introduced APES 230
- COMPLIANCE: To determine whether appropriate quality control systems had been implemented in the practice in accordance with APES 320.

In relation to compliance, we were pleased to find that of 26 practices reviewed, all but one had implemented a quality control system. This practice will undergo a follow-up review.

1. New requirement; not applicable in the 2012–2013 year.
PRACTICES THAT PROVIDE CERTAIN SERVICES

We also analyse review results by considering the different types of services provided by practices.

- Audit services are governed by an exhaustive set of standards when compared with other practice areas and are a focus area during quality reviews:
  - Practices that conduct audits under the Corporations Act revealed fewer non-compliance issues regarded as significant than those conducting other assurance engagements. Practices that undertake audits under the Corporations Act are subject to a more stringent regulatory regime than for other audits, including being subject to ASIC audit inspections and more frequent Institute quality reviews.
  - Further analysis reveals that practices that reveal non-compliance issues regarded as significant and conduct Corporations Act audits in most cases conducted those Corporations Act engagements appropriately, however these policies and procedures did not appear to be applied to the non-Corporations Act assurance engagements.
  - Results from practices that conduct assurance engagements, but not Corporations Act audits, reinforce the need for practices to invest in updating their skills and systems in relation to audit, regardless of the size of practice or type of audits they conduct.

- The insolvency profession is also under the spotlight and we continue to work with ARITA to review our joint members who specialise in insolvency. We also liaise closely with ASIC on the outcome of insolvency reviews.

TYPES OF PRACTICES REVIEWED DURING THE YEAR

The percentage of practice types that underwent a review are shown in the diagram below:

<table>
<thead>
<tr>
<th>TYPE OF PRACTICE</th>
<th>% OF REVIEWS IN 2013–14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Practices that undertake insolvency services</td>
<td>4%</td>
</tr>
<tr>
<td>Practices that undertake audits under the Corporations Act, non-Corporations Act audits and other services</td>
<td>23%</td>
</tr>
<tr>
<td>Practices that undertake non-Corporations Act audits and other services</td>
<td>35%</td>
</tr>
<tr>
<td>Practices that undertake services other than audit and insolvency</td>
<td>38%</td>
</tr>
</tbody>
</table>

Financial planning practices are excluded from the above diagram as only the quality control systems of these practices were examined.
The following charts indicate the results for practices conducting different types of engagements. The results for each practice type include all the engagements reviewed for those practices. For example, for practices that undertake audits under the Corporations Act, the results include all Corporations Act and other audits, as well as other engagements conducted by the practice.

2. Results may not be statistically valid due to the small number of insolvency practices reviewed.

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2. Results may not be statistically valid due to the small number of insolvency practices reviewed.
Ensuring a high quality audit is the aim of auditors, regulators and clients alike. Quality reviews are a core component of the Institute’s matrix of activities promoting audit quality. Initiatives in this area arising from quality reviews in the past year include:

• Explicitly requiring reviewers to address professional scepticism with auditors when conducting quality reviews. There has been growing concern internationally over recent years, that auditors are not being appropriately sceptical in the conduct of their work. Professional scepticism underpins the work of an auditor, and to remind auditors of this fundamental mindset, the Institute has undertaken a range of activities to work with our auditor members to emphasise the importance of applying, and demonstrating, audit scepticism during an audit.

• Proactively communicating the outcomes of quality reviews of audit engagements to specialist auditors and to a broad range of practitioners who undertake more limited assurance engagements. Upholding audit quality is essential for all our members conducting assurance engagements, regardless of the size or nature of the engagement. Quality review results indicate assurance engagements that reveal significant deficiencies tend to be conducted by members who do not specialise in audit, and undertake small engagements. To address this we are reaching out to members through non-audit streams as well as to specialist auditors. For example, the Institute has included an audit issues session in the annual conference for practitioners, as well as offering a specialist audit conference.

• Developing Institute training and development (T&D) to address specific areas of concern arising from quality reviews. This includes ‘Audit issues: Fraud’ workshops which were conducted in June 2014.

• Drawing on the experience of the larger firms when implementing initiatives to improve audit quality, to produce a toolkit promoting consistent audit quality across all practices in Australia. Sharing Experiences on Audit Quality: a selection of ideas and initiatives intended to assist in the promotion of consistent audit quality in Australia was issued by the Institute in November 2013, with input from six audit firms. These firms shared their experiences arising from undertaking enhancements to their own audit quality control systems, focusing on such issues as culture and accountability, staff experience and expertise, and staff supervision and review. The firms have shared their experiences in developing initiatives to enable others in the profession to see examples of practical activities and ideas.

During the year, we continued to see a trend of members either specialising in audit, or resigning from all audit engagements. This reflects the increasing complexity and regulation of audit, requiring a significant investment of practice resources to maintain audit competence and therefore audit quality. Quality reviews are an important mechanism to help practitioners decide whether they are competent and adequately equipped to perform audits.

A full list of Institute resources available for auditors is on page 26 (refer to Appendix 3).
Focus areas for 2014–2015

We will focus on the following areas of improvement in the coming financial year:

• Analyse root causes of quality control deficiencies and work with individual members and through other Institute activities to address these root causes. Detailed analysis of quality review results is assisting the Institute to understand more about the factors that contribute to quality in accounting practices, and root causes of significant deficiencies. This knowledge is now being used throughout the Institute to inform our activities

• Continue to liaise closely with ASIC on auditor quality, and build these findings into quality reviews and other Institute activities

• Refine the review approach and continue to roll out reviews for insolvency and financial planning practices, based on the pilot reviews conducted to date. During the last two years we have been developing our approach to reviewing practices that conduct insolvency and financial planning engagements. In the coming year we will continue to refine our approach, particularly in light of the increasing number of practices we anticipate will offer financial planning services under an AFSL, as a result of the removal of the accountants’ exemption under FoFA

• Pilot online reviews of micro practices that conduct assurance engagements. To fulfil the Institute’s obligations to IFAC, we are from 1 January 2014 required to include all assurance practitioners in the review program, regardless of the size of their practice. To undertake the reviews of very small practices efficiently, we are developing online questionnaires that will be piloted with micro practices in the coming year

• Move towards aligning the quality review programs in Australia and New Zealand. Practising Chartered Accountants in Australia and New Zealand are required to undergo regular reviews. The two professional bodies have liaised since the quality review programs commenced and with the upcoming establishment of Chartered Accountants Australia and New Zealand we are ideally situated to move towards aligning the programs.
ANDREW RIGELE FCA (CHAIR)
Andrew joined the committee in February 2009 and was appointed chair in 2011. He is currently a partner in the Audit and Assurance team of Grant Thornton. Andrew is responsible for coordinating the partner lead audit and other associated assurance services required to meet the requirements of a diverse portfolio of clients, including audits of privately owned businesses, not-for-profit organisations and listed public companies.

BILL HASSELL AM
Bill joined the committee in August 2008. Bill's consultancy work over the past 20 years has involved him in activities for a wide range of major corporations, SMEs and industry bodies. Bill is also a former company director, and a former member of several Commonwealth Government Boards and Committees. Bill is a qualified lawyer with experience in company, commercial and property law, and a former Member of Parliament and Minister of the Crown in Western Australia. He was formerly Honorary Consul for Germany in Western Australia and is now working in a number of voluntary capacities.

PROFESSOR ROBYN MORONEY CA
Robyn joined the committee in February 2013. Robyn is a professor in the Department of Accounting at Monash University and has held positions at the University of Melbourne, the University of Auckland, the University of New South Wales and La Trobe University. Robyn works closely with audit practitioners and regulators in developing her research projects in the areas of auditor decision making, audit quality, audit regulation, industry specialisation, assurance of environmental disclosures and corporate governance. Robyn has published widely in various journals including Auditing: A Journal of Practice & Theory, Behavioural Research in Accounting, Advances in Accounting Behavioural Research, and Accounting and Finance.
ROD PAGE FCA
Rod joined the committee in August 2008. He is a partner in a two-partner practice, which provides business advisory, taxation, and superannuation compliance services. Rod is also a reviewer for the Quality Review Program.

LYNN RALPH FAICD
Lynn joined the committee in November 2010. She was co-founder of corporate governance advisory firm, Cameron Ralph, and she has held the positions of Deputy Chairman of ASIC and CEO, Financial Services Council. Lynn is currently Commissioner, Private Health Insurance Administration Council; Chairman, BT Funds Management, and a non-executive director of a number of companies.

DENIS THORN CA
Denis joined the committee in December 2011. He is an audit partner in the Melbourne office of EY and is also the Professional Practice Director for the Australian and New Zealand Assurance practice and the Financial Services Office. Denis worked in the assurance practice of Arthur Andersen for over 20 years commencing in London then transferring to Sydney in 1983. He also manages the Firm’s quality review program and regulatory inspections.
1. CO-REGULATORY ENVIRONMENT
The following diagram illustrates the co-regulatory environment regulating the work of Chartered Accountants in Australia.

**IFAC**
Obliges member bodies to conduct a mandatory Quality Review Program.

**INSTITUTE OF CHARTERED ACCOUNTANTS AUSTRALIA**
Quality reviews consider the review work conducted by other bodies, provided there is sufficient documentation to rely on.

**ATO**
Conducts compliance reviews of SMSF auditors as part of its compliance program in relation to Australia’s tax and superannuation laws.

**FRC**
Responsibility for providing strategic advice in relation to audit quality in Australia.

**COMPLIANCE REVIEWS**
Conducts quality reviews of SMSF auditors

**AUDIT INSPECTIONS**
Conducts audit inspections

**OTHER REGULATORY BODIES**
The activities of accounting practices are monitored by a range of regulatory and other bodies depending on the nature of the practice and type of engagement conducted. This includes the Tax Practitioners Board.

**ASIC**
Has responsibility, under the Corporations Act, for the surveillance, investigation and enforcement of audit independence and audit standards. Its Audit Inspection Program is currently focused primarily on auditors of listed entities and other public interest entities. From 2013 all SMSF auditors must be registered with ASIC. ASIC is also responsible for the supervision of registered and official liquidators who accept formal appointments as external administrators of companies in Australia.
2. DRIVERS OF AUDIT QUALITY

The following table illustrates the five drivers of quality relevant to an accounting practice (including audit).

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<tr>
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</thead>
<tbody>
<tr>
<td>1. Governance and structure of firm, including the involvement of independent non-executives</td>
<td>1. Recruitment</td>
<td>1. Involvement of partners (including engagement quality control reviewer (EQCR)) and managers in planning process</td>
<td>1. Quality of graduates to recruit</td>
<td>1. Findings and results, systemic risks arising from internal review processes and external reviews</td>
</tr>
<tr>
<td>2. Strategy</td>
<td>2. Assignment of staff to engagement teams</td>
<td>2. Involvement of partners (including EQCR) and managers in review process</td>
<td>2. Skills shortage</td>
<td>2. PI claims/litigation costs</td>
</tr>
<tr>
<td>3. Tone at the top</td>
<td>3. Consultation to reach appropriate conclusions</td>
<td>3. Consultation to reach appropriate conclusions</td>
<td>3. Limitation of liability</td>
<td>3. Communication with clients/stakeholders</td>
</tr>
<tr>
<td>• Reputational risk</td>
<td>5. Identification of fraud</td>
<td>5. Identification of fraud</td>
<td>5. External factors which may impact on the viability of the client (for example, global financial crisis)</td>
<td>5. Payments of penalties on behalf of clients.</td>
</tr>
<tr>
<td>• Behaviours which may result in a risk(s) which may impair or threaten to impair quality</td>
<td>• Policies and procedures to detect fraud</td>
<td>• Policies and procedures to detect fraud</td>
<td>6. Quality of audit committee or others charged with governance at clients.</td>
<td></td>
</tr>
<tr>
<td>5. Values</td>
<td>• Number of frauds discovered</td>
<td>• Number of frauds discovered</td>
<td></td>
<td></td>
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<tr>
<td>6. Ethics and integrity</td>
<td>6. Internal review processes and external reviews</td>
<td>6. Internal review processes and external reviews</td>
<td></td>
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<tr>
<td>7. Independence</td>
<td>• Findings and results, systemic risks</td>
<td>• Findings and results, systemic risks</td>
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<tr>
<td>8. Client acceptance and retention</td>
<td>• Remedial actions</td>
<td>• Remedial actions</td>
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<tr>
<td>9. Whistleblowing policies and procedures</td>
<td>• Skills and knowledge of reviewers</td>
<td>• Skills and knowledge of reviewers</td>
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<tr>
<td>10. Reporting</td>
<td>• Costs of internal review process</td>
<td>• Costs of internal review process</td>
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<tr>
<td>• Publish audited financial statements</td>
<td>7. Clients</td>
<td>7. Clients</td>
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<tr>
<td>• Internal reporting</td>
<td>• Impact of reporting deadlines</td>
<td>• Impact of reporting deadlines</td>
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<tr>
<td>• Governance reporting</td>
<td>• Communication</td>
<td>• Communication</td>
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<tr>
<td>2. Recruitment</td>
<td>• Client feedback</td>
<td>• Client feedback</td>
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<tr>
<td>• Technical skills and knowledge</td>
<td>8. Monitoring complaints</td>
<td>8. Monitoring complaints</td>
<td></td>
<td></td>
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<tr>
<td>• Leadership skills</td>
<td>9. Professional Indemnity (PI) claims/litigation costs</td>
<td>9. Professional Indemnity (PI) claims/litigation costs</td>
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<tr>
<td>• Personal skills and attributes</td>
<td>10. Payment of penalties on behalf of clients and late lodgement of reports and returns.</td>
<td>10. Payment of penalties on behalf of clients and late lodgement of reports and returns.</td>
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<tr>
<td>• Communication skills</td>
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<tr>
<td>• Team skills</td>
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<tr>
<td>• Motivation</td>
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<tr>
<td>3. Performance management</td>
<td>3. Findings and results, systemic risks</td>
<td>3. Findings and results, systemic risks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Technical excellence</td>
<td>• Remedial actions</td>
<td>• Remedial actions</td>
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<tr>
<td>• Values</td>
<td>• Skills and knowledge of reviewers</td>
<td>• Skills and knowledge of reviewers</td>
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</tr>
<tr>
<td>• Knowledge of policies and procedures</td>
<td>• Costs of internal review process</td>
<td>• Costs of internal review process</td>
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<tr>
<td>• Demonstrating compliance</td>
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<tr>
<td>• Contribution within the firm</td>
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<tr>
<td>• Reward and remuneration</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>• Recognition of quality and risk indicators</td>
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</table>
### 3. AUDITING STANDARDS: GUIDANCE AND TOOLS FOR MEMBERS

#### GUIDANCE AND TOOLS

( CharteredAccountants.com.au/audit )

<table>
<thead>
<tr>
<th>Resource Name</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Australian Audit Manual and Toolkit 2014</strong></td>
<td>Clarity version: an up-to-date guide to assist practitioners, incorporating the requirements of the ASAs in clarity format</td>
</tr>
<tr>
<td><strong>Australian Audit Guide and Toolkit for Self-Managed Superannuation Funds 2013</strong></td>
<td>Designed with audit practitioners in mind, addressing the revised and redrafted ASAs in clarity format</td>
</tr>
<tr>
<td><strong>Auditing standards website resources</strong></td>
<td>Articles and a series of Q&amp;As</td>
</tr>
<tr>
<td><strong>Mandatory Requirements of Clarity Auditing Standards Checklist</strong></td>
<td>A tool to assist with compliance with clarity auditing standards</td>
</tr>
<tr>
<td><strong>Audit Focus Areas 2014</strong></td>
<td>This guide summarises the key audit focus areas that members should consider in their 30 June audit engagements</td>
</tr>
<tr>
<td><strong>Applicable standards flowchart</strong></td>
<td>Designed to assist practitioners in determining the applicable auditing and assurance standards for an engagement</td>
</tr>
<tr>
<td><strong>Framework for managing audit quality sustainability</strong></td>
<td>A concise guide to the components needed to manage a sustainable audit process</td>
</tr>
<tr>
<td><strong>Independence Guide</strong></td>
<td>The Institute, together with the two other professional accounting bodies released the 4th edition of this Guide in 2013. This Guide provides an explanation of the conceptual approach to independence in the Code of Ethics, and guidance and practical examples on the application of that approach for assurance practitioners</td>
</tr>
<tr>
<td><strong>Practical Ways to Improve the Exercise and Documentation of Professional Scepticism in an ISA Audit</strong></td>
<td>Provides members with a useful reference tool, through a series of questions for different members of the engagement team at different stages to consider how to demonstrate the scepticism that has been applied during an audit</td>
</tr>
<tr>
<td><strong>Institute’s Reporting and Assurance enquiry service</strong></td>
<td>Free service available on the Institute website to discuss audit issues with members and help them access technical resources and guidance</td>
</tr>
<tr>
<td><strong>Members’ Handbook</strong></td>
<td>Containing regulations and the auditing, accounting and professional and ethical standards that members must abide by in their work</td>
</tr>
</tbody>
</table>
| **Audit Engagements Questionnaires** | Prepared for use by Institute reviewers when reviewing engagements conducted under the clarity standards, these are also useful for members when conducting a self-review of their audit practice. Tailored questionnaires cover:  
  - Publicly listed entities  
  - Audits (both Corporations and non-Corporations Act)  
  - Superannuation funds  
  - Review engagements. |
| **Audit Quality Research Infographic** | Summarises the key findings of research into the audit practices of 11 Australian network firms |
| **Accounting & Assurance News Today** | Weekly email newsletter prepared by the Institute’s reporting and assurance team including updates on Australian and international auditing developments, and a Query of the Week on topical practical issues |
| **Sharing Experiences on Audit Quality** | A selection of ideas and initiatives intended to assist in the promotion of consistent audit quality in Australia: issued by the Institute in November 2013 |
| **Institute’s Quality Control Guide** | Guidance as well as sample policies, letters and workpapers, to help members meet the requirements of APES 320 and ASQC 1. Re-issued in 2013 as an updated and enhanced online tool |
| **Institute’s Risk Management Framework Tool** | Provides a step-by-step guide to establishing a risk management framework for sole practitioners to mid-size firms |
### INSTITUTE AUDITING AND ASSURANCE TRAINING AND DEVELOPMENT

<table>
<thead>
<tr>
<th>MONTH</th>
<th>TRAINING OFFERING</th>
<th>TYPE OF OFFERING</th>
</tr>
</thead>
<tbody>
<tr>
<td>MARCH to MAY 2014</td>
<td>Audit Conference 2014</td>
<td>• Face to face conference&lt;br&gt;• Held in Sydney, Melbourne and Brisbane</td>
</tr>
<tr>
<td>APRIL to JUNE 2014</td>
<td>Business Forum</td>
<td>• Face to face conference&lt;br&gt;• Audit content included in the Perth and Adelaide offerings</td>
</tr>
<tr>
<td>JUNE 2014</td>
<td>Practice Forum</td>
<td>• Face to face conference&lt;br&gt;• Held in Sydney, Newcastle and Albury</td>
</tr>
<tr>
<td>OCTOBER 2013</td>
<td>Audit of SMSFs: Introduction to SIS compliance auditing</td>
<td>• LiveOne (e-learning) series of 4 x 2 hour sessions</td>
</tr>
<tr>
<td>OCTOBER and NOVEMBER 2013</td>
<td>Audit of SMSFs: SIS compliance auditing</td>
<td>• One day face to face workshop held in Sydney and Melbourne, or&lt;br&gt;• LiveOne (e-learning) series of 3 x 2 hour sessions</td>
</tr>
<tr>
<td>MARCH and APRIL 2014</td>
<td>Audit of SMSFs: SIS compliance auditing</td>
<td>• One day face to face workshop held in Sydney, Melbourne, Brisbane, Adelaide and Perth, or&lt;br&gt;• LiveOne (e-learning) series of 3 x 2 hour sessions</td>
</tr>
<tr>
<td>JUNE 2014</td>
<td>Audit of SMSFs: Introduction to SIS compliance auditing</td>
<td>• One day face to face workshop held in Sydney, Melbourne and Brisbane, or&lt;br&gt;• LiveOne (e-learning) series of 4 x 2 hour sessions</td>
</tr>
<tr>
<td>OCTOBER to DECEMBER 2013</td>
<td>Auditor essentials series</td>
<td>• LiveOne (e-learning) series of 5 x 1.5 hour sessions</td>
</tr>
<tr>
<td>MARCH to JUNE 2014</td>
<td>Risk based audit series</td>
<td>• LiveOne (e-learning) series of 5 x 1.5 hour sessions</td>
</tr>
<tr>
<td>JULY 2013</td>
<td>Year-end action plan for auditors</td>
<td>• LiveOne (e-learning) session of 1.5 hours</td>
</tr>
<tr>
<td>AUGUST 2013</td>
<td>ASIC competency exam preparation workshop</td>
<td>• One day workshop held in Sydney, Melbourne and Brisbane</td>
</tr>
<tr>
<td>SEPTEMBER 2013</td>
<td>Review engagements</td>
<td>• LiveOne (e-learning) session of 1.5 hours</td>
</tr>
<tr>
<td>DECEMBER 2013</td>
<td>ASIC guidance: Registering as an RCA</td>
<td>• LiveOne (e-learning) session of 2 hours</td>
</tr>
<tr>
<td>JUNE 2014</td>
<td>Top 10 audit tips: Findings from quality reviews</td>
<td>• LiveOne (e-learning) session of 1.5 hours</td>
</tr>
<tr>
<td>JUNE 2014</td>
<td>Audit and accounting of private and public ancillary funds</td>
<td>• LiveOne (e-learning) session of 1.5 hours</td>
</tr>
<tr>
<td>JUNE 2014</td>
<td>Audit issues: Fraud workshop</td>
<td>• One day face to face workshop held in Sydney and Melbourne</td>
</tr>
</tbody>
</table>
## 4. OVERVIEW OF STANDARDS

The table below provides further information around the key standards identified and referred to in the report.

### AUDITING STANDARDS

<table>
<thead>
<tr>
<th>Standard</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASQC 1: Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Assurance Engagements and Related Services Engagements</td>
<td>Requires practices to establish a system of quality control to provide reasonable assurance that the practice and its staff comply with professional standards and regulatory and legal requirements and that reports issued by the practice are appropriate in the circumstances. ASQC 1 applies to all assurance practices regardless of size.</td>
</tr>
<tr>
<td>ASA 210: Agreeing the Terms of Audit Engagements</td>
<td>Requires the auditor to agree on the terms of engagement, document this agreement and forward it to the entity. It also requires the auditor to establish the preconditions for the audit.</td>
</tr>
<tr>
<td>ASA 220: Quality Control for an Audit of a Financial Report and Other Historical Financial Information</td>
<td>Requires the engagement partner to review the audit documentation to ensure sufficient appropriate evidence has been obtained before the auditor’s report is issued and that the engagement partner formed a conclusion on compliance with independence requirements that applied to the engagement.</td>
</tr>
<tr>
<td>ASA 230: Audit Documentation</td>
<td>Requires the auditor to prepare audit documentation that provides a sufficient and appropriate record of the basis for the auditor’s report.</td>
</tr>
</tbody>
</table>
| ASA 240: The Auditor’s Responsibilities Relating to Fraud in an Audit of a Financial Report | Requires the auditor to:  
- Identify and assess the risks of material misstatement due to fraud at the financial report level and the assertion level;  
- Evaluate the design of the entity’s related controls to determine whether they have been implemented;  
- Determine overall responses to address the risks of material misstatement due to fraud at the financial report level; and  
- Design and perform audit procedures to respond to the risk of management override of controls.  
The standard also requires written management representations relating to fraud, communication with management and those charged with governance, and establishes documentation requirements. The auditor is also required to assess which types of revenue, revenue transactions or assertions give rise to fraud risks based on the presumption that there are risks of fraud in revenue recognition. |
| ASA 300: Planning an Audit of a Financial Report | Requires the auditor to document the overall audit strategy, which considers the key decisions necessary to properly plan the audit. In addition, ASA 300 requires the auditor to prepare an audit plan setting out the nature, timing and extent of audit procedures at the assertion level. |
| ASA 315: Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment | Establishes mandatory requirements and provides explanatory guidance to the auditor on obtaining an understanding of the entity and its environment and assessing the risks of material misstatement in a financial report audit. This auditing standard:  
- Requires the auditor to perform risk assessment procedures to obtain an understanding of the entity and its environment, including its internal control;  
- Requires the engagement team to discuss the susceptibility of the entity’s financial report to material misstatements, including those due to fraud;  
- Requires the auditor to understand specified aspects of the entity and its environment, including its internal control;  
- Requires the auditor to assess the risks of material misstatement both at the financial report and assertion level;  
- Requires the auditor to identify significant risks and assertions where substantive procedures alone will not be sufficient;  
- Requires the auditor to communicate with those charged with governance or management material weaknesses in the design and implementation of internal control that have come to the auditor’s attention; and  
- Outlines the documentation requirements of the auditor. |
<table>
<thead>
<tr>
<th>Standard</th>
<th>Title</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASA 320: Materiality in Planning and Performing an Audit</td>
<td>Requires the auditor to determine materiality for the financial report as a whole and performance materiality when planning the audit, and if applicable, materiality and the related performance materiality for particular classes of transactions, account balances or disclosures.</td>
<td></td>
</tr>
<tr>
<td>ASA 500: Audit Evidence</td>
<td>Requires the auditor to obtain sufficient appropriate audit evidence on which to base the opinion.</td>
<td></td>
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<tr>
<td>ASA 520: Analytical Procedures</td>
<td>Requires analytical procedures to be applied prior to forming an opinion on the financial report.</td>
<td></td>
</tr>
<tr>
<td>ASA 560: Subsequent Events</td>
<td>Requires the auditor to perform procedures designed to obtain sufficient appropriate audit evidence that all events up to the date of the auditor’s report that may require adjustment of, or disclosure in, the financial report were identified.</td>
<td></td>
</tr>
<tr>
<td>ASA 580: Written Representations</td>
<td>Requires the auditor to obtain written representations regarding management’s responsibilities for the financial report. Also requires the auditor to endeavour to obtain written representations from those charged with governance and from management on matters material to the financial report, when other sufficient appropriate audit evidence does not exist.</td>
<td></td>
</tr>
</tbody>
</table>

**PROFESSIONAL AND ETHICAL STANDARDS AND REGULATION**

<table>
<thead>
<tr>
<th>Standard</th>
<th>Title</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>APES 110: Code of Ethics for Professional Accountants</td>
<td>Requires the practice to implement and document appropriate safeguards to reduce the threat to independence to an acceptable level.</td>
<td></td>
</tr>
<tr>
<td>APES 205: Conformity with Accounting Standards</td>
<td>Requires members involved with the preparation, presentation, audit, review or compilation of financial statements, which are either General Purpose Financial Statements or Special Purpose Financial Statements, to apply Australian Accounting Standards Board (AASB) accounting standards as appropriate.</td>
<td></td>
</tr>
<tr>
<td>APES 230: Financial Planning Services</td>
<td>Came into effect on 1 July 2014; details the professional and ethical requirements for members providing financial planning and credit advice.</td>
<td></td>
</tr>
<tr>
<td>APES 305: Terms of Engagement</td>
<td>Requires members to document and communicate the terms of engagement when providing professional services. This can be done in a variety of ways, such as a letter, agreement, standard handout, brochure or electronic communication. APES 305 also requires a member who is a participant in a limitation of liability scheme to advise their clients that the member’s liability may be limited.</td>
<td></td>
</tr>
<tr>
<td>APES 315: Compilation of Financial Information</td>
<td>Requires a statement to be made, where relevant, that the member is not independent of the client and to identify the financial information to which it relates. APES 315 also requires members to obtain an acknowledgement from the client of their responsibility for the reliability, accuracy and completeness of the accounting records and disclosure of all material and relevant information.</td>
<td></td>
</tr>
<tr>
<td>APES 320: Quality Control for Firms</td>
<td>Requires practices to establish a system of quality control to provide reasonable assurance that the practice and its staff comply with professional standards and regulatory and legal requirements and that reports issued by the practice are appropriate in the circumstances. APES 320 applies to all practices regardless of size.</td>
<td></td>
</tr>
<tr>
<td>APES 325: Risk Management for Firms</td>
<td>Came into effect on 1 January 2013, and requires firms to identify, address and document key risks within their practice.</td>
<td></td>
</tr>
<tr>
<td>R7: Regulations Relating to Training and Development</td>
<td>Requires all members to undertake a minimum level of training and development, to undertake at least 40% of the minimum training and development requirement in each speciality area, and to keep a personal record of the time spent on training and development activities. Members who audit SMSFs are required to dedicate 30 hours of their training and development activity over each three-year period to relevant activities in addition to the requirements above.</td>
<td></td>
</tr>
</tbody>
</table>
## 5. Glossary of Terms

<table>
<thead>
<tr>
<th>Abbreviation / Acronym</th>
<th>Name</th>
<th>Website (where applicable)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AFSL</td>
<td>Australian Financial Services Licence</td>
<td></td>
</tr>
<tr>
<td>APESB</td>
<td>Accounting Professional &amp; Ethical Standards Board</td>
<td>apesb.org.au</td>
</tr>
<tr>
<td>ARITA</td>
<td>Australian Restructuring Insolvency &amp; Turnaround Association</td>
<td>arita.com.au</td>
</tr>
<tr>
<td>ASAs</td>
<td>Australian Auditing Standards</td>
<td></td>
</tr>
<tr>
<td>ASIC</td>
<td>Australian Securities and Investments Commission</td>
<td>asic.gov.au</td>
</tr>
<tr>
<td>ATO</td>
<td>Australian Taxation Office</td>
<td>ato.gov.au</td>
</tr>
<tr>
<td>AUASB</td>
<td>Auditing and Assurance Standards Board</td>
<td>auasb.gov.au</td>
</tr>
<tr>
<td>CPP</td>
<td>Certificate of Public Practice</td>
<td></td>
</tr>
<tr>
<td>FoFA</td>
<td>Future of Financial Advice</td>
<td></td>
</tr>
<tr>
<td>GAA</td>
<td>Global Accounting Alliance</td>
<td>globalaccountingalliance.com</td>
</tr>
<tr>
<td>IAAASB</td>
<td>International Auditing and Assurance Standards Board</td>
<td>ifac.org/iaasb</td>
</tr>
<tr>
<td>IFAC</td>
<td>International Federation of Accountants</td>
<td>ifac.org</td>
</tr>
<tr>
<td>RCA</td>
<td>Registered company auditor</td>
<td></td>
</tr>
<tr>
<td>SMSFs</td>
<td>Self-managed superannuation funds</td>
<td></td>
</tr>
<tr>
<td>T&amp;D</td>
<td>Training and development</td>
<td></td>
</tr>
<tr>
<td>THE COMMITTEE</td>
<td>Quality Review Committee</td>
<td></td>
</tr>
<tr>
<td>THE INSTITUTE</td>
<td>Institute of Chartered Accountants Australia</td>
<td>charteredaccountants.com.au</td>
</tr>
<tr>
<td>THE PROGRAM</td>
<td>Quality Review Program</td>
<td>charteredaccountants.com.au/qualityreview</td>
</tr>
<tr>
<td>TPB</td>
<td>Tax Practitioners Board</td>
<td>tpb.gov.au</td>
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