The Institute of Chartered Accountants in Australia

The Institute of Chartered Accountants in Australia (the Institute) is the professional body representing Chartered Accountants in Australia. Our reach extends to more than 62,000 of today’s and tomorrow’s business leaders, representing more than 50,000 Chartered Accountants and 12,000 of Australia’s best accounting graduates who are currently enrolled in our world class Chartered Accountants postgraduate program.

Our members work in diverse roles across commerce and industry, academia, government, and public practice throughout Australia and in 119 countries around the world.

We aim to lead the profession by delivering visionary leadership projects, setting the benchmark for the highest ethical, professional and educational standards, and enhancing and promoting the Chartered Accountant brand. We also represent the interests of members to government, industry, academia and the general public by actively engaging our membership and local and international bodies on public policy, government legislation and regulatory issues.

The Institute can leverage advantages for its members as a founding member of the Global Accounting Alliance (GAA), an international accounting coalition formed by the world’s premier accounting bodies. With a membership of around 775,000, the GAA promotes quality professional services, shares information, and collaborates on international accounting issues.

Established in 1928, the Institute is constituted by Royal Charter. For further information about the Institute, visit 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 specifically 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, review reports on particular members or practices, or other materials produced by the Institute regarding or in connection with the Quality Review Program.

All information is current as at August 2009

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Annual Report on the Quality Review Program
4th edition
Annual Report on the Quality Review Program
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The Institute’s Quality Review Program (the Program) is a key component of the co-regulatory framework in Australia. The Program assesses whether our members in practice have the appropriate quality control policies and procedures in place to ensure their work complies with professional standards and regulatory requirements.

This year, the economic climate has brought new challenges for members in public practice, so we have taken a number of steps to assist them in meeting quality control and professional standards. These include an exhaustive range of training, tools and guidance throughout the year, and, as the financial year end approached, publishing new guidance for key areas, such as fair value, asset impairment and going concern. We will continue to provide support to our members through the latest training and tools to assist their delivery of quality services to their clients.

The accounting profession is going through a time of transformation. Alongside the economic downturn, we anticipate regulatory and international changes. To remain relevant, our Quality Review Program has to evolve with this. Going forward, our processes and approach will be modified to ensure our reviews remain fresh and effective. But as we plan and deliver these changes, one thing will remain constant: our wholehearted commitment to quality.

In signing off, I’d like to acknowledge the assistance of the Quality Review Committee and reviewers, who help deliver a robust and transparent Program. And thanks should also go to our members who participate in the Program for the benefit of the business community and public interest.

Lee White FCA
General Manager of Leadership and Quality
The Institute of Chartered Accountants in Australia
What have we found?
During the year ended 30 June 2009, we completed 468 quality reviews of practices ranging in size from national partnerships to sole practitioners. Of the reviews completed, 79 per cent of practices were reported to have either met all of the professional standards and regulatory requirements as set by standard setters and regulators, or showed levels of non-compliance that were not regarded as serious.
In the remaining 21 per cent of practices, we found more significant areas of non-compliance which meant we had to conduct a follow-up review. This allows us to revisit the practice and ensure that all issues identified have been rectified.
During reviews, five per cent of practices decided to cease conducting audit engagements as they recognised that auditing is an advanced technical skill, and were either not equipped to meet the requirements of the current auditing standards or could not commit to the resources required to do so within a reasonable timeframe.
Areas where we found patterns of non-compliance included:
> Insufficient audit documentation
> Inadequate documentation of quality control in accordance with APES 320: Quality Control for Firms
> Not meeting the minimum required hours of training and development, mainly in respect of their statutory registrations.

What does this mean?
The results of the quality reviews conducted during the year ended 30 June 2009, indicate Chartered Accountants are delivering a quality service to their clients. Based on the evidence we have seen, the majority of practices appear to have the systems in place to conduct sound audits. However, many auditors have not yet adjusted to the recently enhanced documentation requirements.
The results also indicate that members are fulfilling their obligations under the professional standards legislation in respect of the limitation of liability schemes – which ensures appropriate quality and protection for the members’ clients.
As part of the schemes’ conditions, the Institute undertakes to monitor and improve the standards of professional work undertaken by members.

What are we doing?
The Institute takes the view that any non-compliance is unacceptable. So where we identify patterns of non-compliance, we act without delay. This includes educational initiatives such as training and development as well as providing guidance and tools to assist members in rectifying these areas.
This was the first financial year where all audits under review were subject to the enhanced and legally enforcable auditing standards. So, we placed particular scrutiny on these results. After six months, we identified the trend of insufficient audit documentation and took action immediately. We wrote to 8000 members in public practice, alerting them to our findings and highlighting the exhaustive range of training, tools and guidance that would help them to avoid compliance issues in their work.

What happens next?
In an ever-changing regulatory and economic environment, our Quality Review Program has to evolve. Going forward our processes and approach will be modified to ensure our reviews remain fresh and effective. Naturally, we will consult with regulators, government, standard setters and practices (of all sizes, from the Big 4 to sole practitioners) to ensure we get this right.
Overview: The Quality Review Program

Role of the Quality Review Program

The Program is a key feature of the co-regulatory framework in Australia. It assesses whether our members in practice have the quality control policies and procedures in place to ensure that their work complies with professional standards and regulatory requirements. The appropriateness of the opinions issued, or the advice provided, by members is not assessed during this process.

The Institute’s quality review process identifies issues of non-compliance in individual practices. Although we do not identify individual practices, we summarise trends and results from reviews. Where we find non-compliance occurring for the same standard/regulation in a number of practices, we focus our efforts to educate the wider membership on how to comply.

In the interests of transparency we report our findings to our members, the regulators and standard setters we work with, and the general public.

The Program is a necessary condition of the Institute being recognised as a professional accounting body that represents Chartered Accountants both in Australia and internationally.

The Program also contributes to the Institute’s obligations under professional standards legislation in respect of the limitation of liability schemes. As part of these schemes’ conditions, the Institute undertakes to monitor and improve the standards of professional work undertaken by members. The Program assists the Institute to fulfil that obligation.

Working with other bodies

The Australian accounting profession exists within a co-regulatory environment in which the Institute works with other bodies to regulate the work of Chartered Accountants. These other bodies include:

> Accounting Professional and Ethical Standards Board (APESB)

The APESB develops and issues professional and ethical standards. APES 110 Code of Ethics for Professional Accountants, other professional standards and guidance notes are binding on Chartered Accountants.

> Audit Quality Review Board (AQRB)

In February 2009, the AQRB completed its three-year charter. The AQRB was an independent body established within the auditing profession to monitor quality assurance processes. The four participating firms of the AQRB (the Big 4 – Deloitte, Ernst & Young, KPMG and PricewaterhouseCoopers) did not renew their agreements with the AQRB, and consequently the AQRB no longer exists. Accordingly, the Big 4 will continue to be subject to review by the Australian Securities & Investments Commission (ASIC) and the Institute.

> Australian Prudential Regulation Authority (APRA)

APRA is the prudential regulator of the Australian financial services industry. It oversees banks, credits unions, building societies, general insurance and reinsurance companies, life insurance companies, friendly societies and most members of the superannuation industry.

> Australian Securities & Investments Commission (ASIC)

ASIC is Australia’s corporate, markets and financial services regulator. ASIC regulates Australian companies, financial markets, financial services organisations, and professionals who deal and advise in investments, superannuation, insurance, deposit taking and credit.

> Australian Taxation Office (ATO)

The ATO manages and shapes tax, excise and superannuation systems in Australia.

> Australian Transaction Reports and Analysis Centre (AUSTRAC)

AUSTRAC is Australia’s anti-money-laundering and counter-terrorism financing regulator.

> Financial Reporting Council (FRC)

The FRC is responsible for providing broad oversight of the process for setting accounting and auditing standards and for monitoring the effectiveness of auditor independence requirements in Australia.

> International Federation of Accountants (IFAC)

IFAC develops international standards, promotes ethical values, encourages quality practice and supports the development of all sectors of the profession around the world. As a member body of IFAC, the Institute is required to conduct a mandatory Quality Review Program in accordance with statement of membership obligations SMO 1: Quality Assurance.

Who is reviewed?

Members who hold a Certificate of Public Practice (CPP) are required to undergo the Quality Review Program from time to time in accordance with the policies and procedures laid down for the operation of the Program. This is a requirement of Regulation 715.1 of the Institute’s regulations.

A member’s CPP may be suspended by the Institute’s Board for not cooperating with the Program in accordance with Regulation 715. Suspension prevents members from continuing to practice as Chartered Accountants. If they continue to practice, they are referred to the Institute’s disciplinary processes for investigation. During this year, a number of members, who did not wish to undergo a review, resigned their membership of the Institute. A condition of readmission to membership is successful completion of a quality review.
The co-regulatory environment
The following diagram illustrates the co-regulatory environment regulating the work of Chartered Accountants in Australia:

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**How often are practices reviewed?**
All practices that sign off on audits requiring registered company auditor (RCA) registration are reviewed at least once every three years. This does not apply to a sole practitioner holding a concessional CPP at a one-third rate as they are subject to a self-assessment review. Some practitioners holding a full CPP who are not RCAs and with gross fees under $50,000 are also eligible to request a self-assessment review. Holders of a concessional CPP at a nil rate are excluded from the review process.

All other practices are reviewed once every five years, including practices with an RCA but not conducting RCA audits.

If a practice is selected for review on a three-year cycle but does not conduct any audits requiring sign-off by a RCA, the practice may request a deferral for two years by providing supporting documentation to the Institute, including an ASIC Annual Statement confirming that these audits have not been conducted.

Selection for review is in no way a reflection on a practice. Practices are selected for review approximately three or five years from the date their previous Institute review report was issued. New practices are randomly selected for review.

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**What is a Quality Review?**
The Program is a quality assurance process designed to monitor whether our members have the quality control policies and procedures in place to comply with professional standards and regulatory requirements. The Program is compliance focused and reviews do not assess the appropriateness of the opinions issued, or the advice provided, by members.

Practices must have documented quality control policies and procedures in accordance with APES 320: Quality Control for Firms. The elements of quality control are:

> Leadership responsibilities for quality within the practice
> Ethical requirements
> Acceptance and continuance of client relationships and specific engagements
> Human resources
> Engagement performance
> Monitoring.

An Institute appointed reviewer visits a practice and reviews the quality control policies and procedures that are implemented in that practice by:

> Examining the practice’s manuals, working papers and other documents to evaluate adherence to professional standards and regulatory requirements
> Selecting a cross-section of recently completed engagement files to assess whether quality control policies and procedures are being implemented.

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**Quality reviewers**

All reviewers are experienced Chartered Accountants who work, or have worked, in public practice. They are selected because of their professional reputation and practice experience, and their expertise and experience is matched as closely as possible to the practice under review to enhance the efficiency and effectiveness of the review. Reviewers are appointed by the Institute with the consent of the practice being reviewed.

Reviewers are bound by strict agreements in accordance with the terms and conditions of their appointment, ensuring a professional and consistent approach to each review, particularly in relation to the confidentiality of information obtained during a review. Reviewers are bound not to disclose any information about the practice, its staff or its clients other than to the Institute’s quality review staff, except in the following cases:

- Where the review results in a referral to the Institute’s professional conduct division, or
- If the Institute is compelled to by law.

**The review process**

1. **Step 1**
   - Practice selected for review

2. **Step 2**
   - Practice completes questionnaire about the practice and its services

3. **Step 3**
   - Practice notified of proposed reviewer

4. **Step 4**
   - Reviewer visits the practice and assesses its quality control policies and procedures and reviews files

5. **Step 5**
   - Reviewer presents report to the Institute, outlining any breaches and best practice suggestions

6. **Step 6**
   - The Institute reviews report and then issues its own report to the practice

   **Report is one of four types**

   - **No departures from professional standards**
     - Practice invoiced for review fee

   - **Departure(s) from professional standards, not classified as serious**
     - Practice invoiced for review fee

   - **Follow-up review required**
     - Practice invoiced for review fee

   - **Referral to the Institute’s disciplinary processes for investigation**
     - Practice invoiced for review fee

   - **No further action required**
     - Practice addresses issues

   - **Practice provides an action plan to the Institute to address compliance issues**

   - **Disciplinary investigation**

   - **Practice confirms in writing to the Institute that issues have been addressed (within six months)**

   - **Return to step 1**

   - **Sanctions imposed, where appropriate**

If members don’t comply with this process, they may be referred to the Institute’s Board, the Quality Review Committee, or Professional Conduct, for disciplinary action.
Review reports issued and action required
The findings of a quality review are communicated to the practice in the form of a review report indicating one of the following four results:

<table>
<thead>
<tr>
<th>Review reports</th>
<th>Action required</th>
</tr>
</thead>
<tbody>
<tr>
<td>No departures from professional standards</td>
<td>Following the review, we would not take any further action as it appears that there are adequate quality control procedures in place in the practice.</td>
</tr>
<tr>
<td>Departure(s) from professional standards, not classified as serious</td>
<td>We request that the practice confirms to us in writing that the issues identified in the review report have been addressed. Members are referred to guides/advice to help address the issues that were identified.</td>
</tr>
<tr>
<td>Follow-up review required</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>Referral to the Institute’s disciplinary processes for investigation</td>
<td>The practice is referred to the Institute’s disciplinary process for investigation.</td>
</tr>
</tbody>
</table>

During this year, the criteria giving rise to the review reports outlined above were reviewed. As a result, a number of issues which would previously have resulted in a ‘departure(s) from professional standards, not classified as serious’ report will now result in a “follow-up review required” report.

Limitations of the Quality Review Program
Limitations include the following:

> For members eligible for a review, a review is a mandatory requirement of their Institute membership. A review is conducted on a professional basis. It is not an investigation, as the Institute does not have the legal power to seize information.

> Members provide us with information on the identity of their clients. We compare this information to publicly available information for auditors of publicly listed companies and to ASIC Annual Statements for Corporations Act audits. For non-audit clients, we are reliant on the practice’s information. Accordingly, client files are selected based on discussion with members.

> 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. Accordingly, the practice is aware of the files that the reviewer will review prior to client consent having been obtained and the files being available for review. To enable the reviewer to access the file when selected for review, we encourage members to seek permission from their clients in the initial terms of engagement.
Review results for the first six months: July – December 2008

Why did we communicate results for the first six months of the year?

This financial year was the first year in which all the audit engagements reviewed were subject to the current suite of Australian Auditing Standards (ASAs), including legally enforceable auditing standards for Corporations Act audits, which came into effect for June 2007 financial year ends. There is a time lag between engagements being undertaken then completed, and then quality reviews taking place of those engagements, and results being analysed and reported. These engagements were also the first to require adherence to the increased documentation requirements of the current auditing standards.

Accordingly, we looked very closely at the results arising from the reviews completed in the first six months of this financial year to determine whether auditors were complying with the current auditing standards.

The findings arising from the reviews conducted during this period indicated a greater level of non-compliance than in 2007 – 2008. In the interests of transparency and to alert our members to these emerging trends, we communicated the results from the reviews conducted during this period to regulators, government, standard setters and members as a matter of priority.

We wrote a letter to 8000 members in public practice alerting them to the review findings and highlighting the main areas of non-compliance. The results from the reviews conducted suggested that the majority of practices appeared to have the systems in place to conduct sound audits but that work was not always being documented sufficiently in accordance with the current auditing standards. Other areas of non-compliance related to inadequate documentation of quality control systems in accordance with APES 320, and to members not completing the prescribed level of training and development activities.

We also reiterated to members that auditing is an advanced, technical skill. Members should not offer and undertake audit services unless they are committed and equipped to meet the requirements of the auditing standards. The Institute acknowledges that auditing has seen unprecedented regulatory change in recent years, and understands the challenges that members face. This is why a range of member guidance materials is available, including an Australian Auditing Manual and a supplementary Australian Auditing Toolkit.

In addition to the letter, member communication channels included several e-newsletters and Charter magazine. An article was also published in the Australian Financial Review in February 2009.

In recognising that standards are continually changing, we will continue to provide support and guidance to members in meeting their requirements.

The Institute has also looked very closely at the findings from the reviews conducted in the second six months of the year. See ‘This year’s results: 2008 – 2009’ on page 11 for details of the overall results for this period.

Note: Between 1 July and 31 December 2008, we reviewed 242 practices. This did not include the Big 4 firms and some larger firms, which had been subject to recent reviews by either ASIC and/or the AQRB. Details of these other reviews can be read at www.asic.gov.au and www.aqrb.org.au.
This year’s results: 2008 – 2009

As part of our review of the results for 2008 – 2009, we looked closely at the results for the first six months as outlined on page 10. In the second six months of the year, the results improved slightly, suggesting a positive response by members to the Institute’s communication strategy (outlined earlier in this report) and an increased understanding by members of the enhanced requirements. The main areas of non-compliance that need to improve in future continue to be around audit documentation, quality control documentation, and training and development hours.

The Institute takes the view that any non-compliance is unacceptable. Where we establish patterns of non-compliance, we work to address these through educational initiatives, and guides and tools for members. These initiatives, guides and tools are referred to throughout this report.

See ‘Non-compliance issues’ on page 13 for a summary of the more common non-compliance issues and a discussion of the matters giving rise to these issues.

Overall results

As explained earlier, the criteria giving rise to the different types of review reports were reviewed. As a result, a number of issues which would previously have resulted in a ‘departure(s) from professional standards, not classified as serious’ review report would now result in a “follow-up review required” report. This is reflected in an increase in the percentage of ‘follow-up review required’ reports issued.

During the year ended 30 June 2009, we reviewed 468 practices and issued the following review reports (as explained earlier):

<table>
<thead>
<tr>
<th>Year</th>
<th>Reviews completed</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008 – 2009</td>
<td>468</td>
</tr>
<tr>
<td>2007 – 2008</td>
<td>480</td>
</tr>
<tr>
<td>2006 – 2007</td>
<td>478</td>
</tr>
</tbody>
</table>

Practices reviewed according to size

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole practitioners</td>
<td>62%</td>
<td>65%</td>
</tr>
<tr>
<td>Practices with two to four practitioners</td>
<td>31%</td>
<td>30%</td>
</tr>
<tr>
<td>Non-mid-tier practices with five or more practitioners</td>
<td>5%</td>
<td>3%</td>
</tr>
<tr>
<td>Mid-tier practices</td>
<td>2%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Note: The Big 4 are all subject to quality review by the Institute every three years. Although they were not reviewed by the Institute in 2008 – 2009, they were reviewed by either ASIC and/or the AQRB. Details of these reviews can be read at www.asic.gov.au and www.aqrb.gov.au

Note: These figures are presented as percentages, as the total number of reviews varies from year to year.
Practices that provide certain services
The standards that relate to different services provided by members in practice vary.
Audit engagements must comply with an exhaustive set of standards. These standards are much more comprehensive than those for, say, compilation or tax engagements. Accordingly, audit services have been identified as a high-risk area during a review, and therefore we focus strongly on this area when reviewing practices that conduct audits. Within the group of practices that conduct audits, we look at two key types: practices that conduct audits under the requirements of the *Corporations Act*, and those that conduct other types of audits.

Practices that undertake audits under the *Corporations Act*

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1%</td>
<td>72%</td>
<td>28%</td>
</tr>
</tbody>
</table>

Practices that undertake other types of audit

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>3%</td>
<td>80%</td>
<td>20%</td>
</tr>
</tbody>
</table>

Practices that undertake other (non-audit) services

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>48%</td>
<td>52%</td>
<td>2%</td>
</tr>
</tbody>
</table>

**Note:** Details for 2006 – 2007 are unavailable.
Non-compliance issues
This section provides a summary of the more common non-compliance issues noted from the reviews completed during the year.

Audit documentation
The majority of non-compliance issues identified in the quality reviews completed during the year related to insufficient audit documentation. These review results were the first where all audit engagements were subject to the current suite of auditing standards (including legally enforceable auditing standards for Corporations Act audits). Auditing has seen unprecedented regulatory change in recent years. However, this does not mean that lesser-quality audits were performed, but rather that practitioners (at the time of performing the first round of audits applying these standards) had not fully embraced the enhanced documentation requirements.

These areas of non-compliance were not considered to require referral to the Institute’s disciplinary processes. However, there has been an increase in the number of practices that resigned from all their audit engagements as a result of matters noted during their quality reviews (from one per cent in 2007–2008 to five per cent in 2008–2009). Members recognised that auditing is an advanced, technical skill and that they either were not equipped to meet the requirements of the current auditing standards or could not commit the resources required to do so within a reasonable timeframe.

The Institute is helping members to ensure they are appropriately documenting their audit procedures through making available at no charge an audit manual, a substantial increase in training and development offerings, an audit toolkit to assist practitioners in the application of the standards, and further guidance. The Institute also helped the Auditing and Assurance Standards Board (AUASB) to develop significant guidance for Self-Managed Superannuation Fund (SMSF) audits.

Due to the time lag between engagements being completed and then reviewed, we are not yet assessing the engagements completed after the Institute published the audit manual and audit toolkit. We expect to see an overall improvement in documentation levels once we review members’ work completed after the release of the manual and toolkit.

In relation to the issues noted below, practices were either required to undergo a follow-up review or confirm in writing that the issues had been addressed.

<table>
<thead>
<tr>
<th>Standard</th>
<th>08/09</th>
<th>07/08</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASA 230: Audit Documentation</td>
<td>20</td>
<td>11</td>
</tr>
<tr>
<td>ASA 210: Terms of Audit Engagements</td>
<td>20</td>
<td>18</td>
</tr>
<tr>
<td>ASA 220: Quality Control for Audits of Historical Financial Information</td>
<td>12</td>
<td>N/A*</td>
</tr>
<tr>
<td>ASA 300: Planning an Audit of a Financial Report</td>
<td>24</td>
<td>12</td>
</tr>
<tr>
<td>ASA 315: Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement</td>
<td>48</td>
<td>34</td>
</tr>
<tr>
<td>ASA 520: Analytical Procedures</td>
<td>32</td>
<td>21</td>
</tr>
<tr>
<td>ASA 560: Subsequent Events</td>
<td>32</td>
<td>22</td>
</tr>
<tr>
<td>ASA 570: Going Concern</td>
<td>22</td>
<td>17</td>
</tr>
</tbody>
</table>


Auditor independence
Together with the other professional accounting bodies, an extensively revised and updated Co-regulatory Guide to Independence was launched. This is an online resource for members designed to help provide consistency and support in the practical application of independence requirements outlined under the Corporations Act, and independence principles under s280 of APES 110: Code of Ethics for Professional Accountants.

In relation to the issues noted below, practices were required to confirm in writing that the issues have been addressed.

<table>
<thead>
<tr>
<th>APES 110: Code of Ethics for Professional Accountants</th>
<th>08/09</th>
<th>07/08</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; No documentation or inadequate documentation when considering threats to independence</td>
<td>12</td>
<td>14</td>
</tr>
<tr>
<td>&gt; Appropriate safeguards were not adequately applied when carrying out audit and accounting functions for a client</td>
<td>13</td>
<td>12.5</td>
</tr>
<tr>
<td>&gt; Auditing the SMSF of a partner in their practice</td>
<td>6</td>
<td>5</td>
</tr>
</tbody>
</table>
Quality control

Some members do not appear to have been documenting or adequately documenting their quality control system in accordance with APES 320: Quality Control for Firms. As APES 320 became applicable at the same time as the current auditing standards, it appears that members had not fully embraced the enhanced documentation requirements.

To assist members who work in practice to meet the quality control standards mandated under APES 320, the Institute updated the interactive Quality Control Guide.

In relation to the issues noted below, practices were either required to undergo a follow-up review or confirm in writing that the issues had been addressed.

<table>
<thead>
<tr>
<th>APES 320: Quality Control for Firms</th>
<th>08/09</th>
<th>07/08</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; A system of quality control does not appear to have been documented</td>
<td>15</td>
<td>*</td>
</tr>
<tr>
<td>&gt; A system of quality control does not appear to have been adequately documented</td>
<td>30</td>
<td>*</td>
</tr>
<tr>
<td>&gt; Consideration of client relationship not documented prior to commencing work</td>
<td>40</td>
<td>17.5</td>
</tr>
<tr>
<td>&gt; No annual written confirmation of compliance on independence</td>
<td>16</td>
<td>6.5</td>
</tr>
</tbody>
</table>

* 2007–2008 combined total was 18.5 per cent.

Preparation of financial reports

The issues referred to below arose where a practice did not update or use standard templates.

In relation to the issues noted below, practices were required to confirm in writing that the issues have been addressed.

<table>
<thead>
<tr>
<th>APES 205: Conformity with Accounting Standards (formerly APS 1)</th>
<th>08/09</th>
<th>07/08</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; Financial reports do not clearly state that they are special purpose</td>
<td>13</td>
<td>7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>APS 9: Statement on Compilation of Financial Reports</th>
<th>08/09</th>
<th>07/08</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; Compilation reports not in accordance with APS 9</td>
<td>27</td>
<td>34.5</td>
</tr>
<tr>
<td>&gt; Financial reports do not always clearly state that the financial information has not been audited</td>
<td>17</td>
<td>17</td>
</tr>
</tbody>
</table>

Training and development

Quality reviews revealed a shortfall in some members meeting regulation requirements surrounding minimum required hours of training and development, mainly in respect of their statutory registrations.

Members are required to complete a minimum of 120 hours of training and development on a three year basis. As part of their training and development hours, they must complete 40 per cent of their hours in the area of their specialisation.

When a shortfall has been identified, the Institute contacts the member to ensure the shortfall is addressed. The Institute endeavours to supply adequate opportunities for a member to undertake training and development activities. A member may be excluded from membership of the Institute if they fail to meet the requirements for two consecutive years.

<table>
<thead>
<tr>
<th>R7: Regulations Relating to Training &amp; Development</th>
<th>08/09</th>
<th>07/08</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; Minimum required hours of Training &amp; Development not completed</td>
<td>6</td>
<td>*</td>
</tr>
<tr>
<td>&gt; Minimum required hours of Training &amp; Development in respect of statutory audit registration not completed</td>
<td>10</td>
<td>*</td>
</tr>
<tr>
<td>&gt; Minimum required hours of Training &amp; Development in respect of statutory taxation registration not completed</td>
<td>1</td>
<td>*</td>
</tr>
<tr>
<td>&gt; Minimum required hours of Training &amp; Development in respect of statutory audit registration and taxation registration not completed</td>
<td>2</td>
<td>*</td>
</tr>
</tbody>
</table>

* 2007–2008 combined total was 14 per cent.
Resources for members

This year the economic climate has brought new challenges for members in public practice, so we took a number of steps to provide assistance in meeting quality control and professional standards. These included offering an exhaustive range of training, tools and guidance throughout the year and, as the financial year end approached, publishing new guidance for key areas, such as fair value, asset impairment and going concern. We will continue to provide support to our members through the latest training and tools to assist their delivery of quality services to clients.

Resources we have provided this year include:

| Guidance on the global economic downturn | In response to the global economic downturn, we have provided guidance and information such as Charter articles, knowledge guides and thought leadership papers, all of which are accessible from the Institute’s dedicated webpage on the global economic downturn. This webpage provides quick reference to Institute resources, along with appropriate links to industry stakeholders. All information is regularly updated and reviewed to ensure it is relevant. |
| Essential guidance for the 2009 financial year end | The Institute released practical guidance to address the significant issues and areas preparers, audit committees and auditors need to consider that are of particular relevance to the 30 June 2009 financial year end. The guidance highlighted three issues of particular relevance to the reporting year end which require the exercise of significant professional judgement: fair value, asset impairment and going concern. The three significant areas of focus will be reviewed in detail during the review of audit engagement files as part of the Program, and the findings will be published. |
| Audit Manual and Toolkit | The Institute developed an audit manual and toolkit to assist practitioners in conducting audits in line with necessary requirements. The manual is a practical ‘how to’ guide reflecting the requirements of ASAs. The supplementary toolkit includes forms, checklists and programs for conducting an audit. The manual and toolkit will be updated in 2009 – 2010 to reflect changes to the ASAs in ‘clarity’ format. |
| Quality Control Guide | The Institute’s interactive Quality Control Guide, developed to help members establish a quality control system in their practice, was updated during the year. The guide is a series of pro forma documents that cover the policies and procedures of APES 320, which can be used to form the basis of a firm’s quality control system. The pro formas can be downloaded and adapted to suit the specific needs of individual firms. The guide will be further updated to reflect any changes to quality control standards. |
| Training and development | The Institute runs a comprehensive range of training and development events for members each year. Areas of non-compliance identified in quality reviews are covered at relevant events. Audit seminars, addressing the practical application of auditing standards in detail, are held year round. During this financial year the Institute held the following seminars: > September 2008: Australian Audit Manual Training > October 2008: Audit of Self-Managed Superannuation Funds > November – December 2008: Audit Essentials Workshop > November – December 2008: Auditing – Impact of the Economic Downturn > December 2008: Accounting & Audit of Registered Clubs > April – May 2009: Audit Conferences. Audit seminars will be held later this year, covering the ASAs in ‘clarity’ format due for release by the AUASB in October 2009, as outlined under ‘Future developments’ on page 17. We have also introduced an online training program to broaden access to training for practitioners in rural and regional areas. In May 2009 a seminar on audit documentation was held. |

Continued overleaf »
Resources we have provided this year include (continued):

| Technical guidance and member communication | The latest technical guidance is published in *Charter* magazine. This is mailed to all our members on a monthly basis. Regular technical e-newsletters are also produced that include updates on areas such as audit, financial reporting, tax, superannuation and professional and ethical standards. The Institute’s Reporting and Assurance team offers members guidance, support and advice in the application of financial reporting and assurance standards. |
| Members Handbook | The Institute provides members with a free handbook containing regulations and standards (including auditing standards) that members must abide by in their work. We update this handbook online every eight weeks to ensure members are kept up to date with the latest requirements and compliance issues. |
| Working with external stakeholders | The Institute continued to work closely with regulators, standard setters, government and the other professional accounting bodies. An understanding was reached with ASIC to reduce the duplication of review work. The Institute will consider ASIC’s inspection findings and modify the timing and scope of its reviews as a result, and when determining the scope and timing of an inspection ASIC will consider the Institute’s review findings. We helped the AUASB to develop a significant guidance statement for SMSF audits, entitled *GS 009: Auditing Self Managed Superannuation Funds*. The guidance statement is aimed specifically at the audit requirements for SMSFs. |
Future developments

Review of the Quality Review Program
The accounting profession is going through a time of transformation. Alongside the economic downturn, we anticipate regulatory and international changes. Some of these are outlined below. To remain relevant, our Quality Review Program has to evolve with this. Going forward, our processes and approach will be modified to ensure our reviews remain fresh and effective. But as we plan and deliver these changes, one thing will remain constant: our wholehearted commitment to quality.

Naturally, we will consult with regulators, government, standard setters and practices (of all sizes from the Big 4 to sole practitioners) to ensure we get this right.

Audit
AUASB’s new quality control standard – ASQC 1
As part of its overall project to revise and redraft all the Australian Auditing Standards, the AUASB will introduce a new quality control standard that is legally enforceable under the Corporations Act, entitled ASQC 1: Quality Control for Firms that Perform Audits and Reviews, of Financial Reports, Other Financial Information, and Other Assurance Engagements. The AUASB expects that the standard will become effective from 1 January 2010.

Proposed ASQC 1 is based on the equivalent international standard on quality control, ISQC 1, issued by the International Auditing and Assurance Standards Board (IAASB). Practices in Australia have since July 2006 been required to comply with the existing quality control standard introduced by the APESB, entitled APES 320: Quality Control for Firms, which is also based on, and incorporates, all the requirements of ISQC 1.

Firms should therefore already have addressed and been meeting their quality control obligations, and the impact of the proposed ASQC 1 is expected to be minimal.

The Institute is currently developing guidance for members which will provide a ‘mapping’ of the requirements of APES 320 and ASQC 1 to each other. The Institute’s Quality Control Guide will also be revised to reflect the introduction of the quality control standard.

AUASB ‘clarity’ project
At the time of going to print, the AUASB was close to finalising its revision and redrafting of all the ASAs. These revised and redrafted ASAs use the equivalent International Standards on Auditing (ISAs) as the underlining standards and conform to the equivalent ISAs, issued by the IAASB.

The AUASB has indicated that it remains committed to its deadline of having a full suite of redrafted standards finalised by October 2008, with the operative date for financial reporting periods commencing on or after 1 January 2010.

‘Clarity’ is the title given to this project to redraft and clarify wording used throughout the standards.

The Institute has plans underway to continue to educate members about the proposed new standards through training, technical newsletters and guidance as well as the updating of tools such as the audit manual and related toolkit.

Financial reporting
This financial year has seen unprecedented focus on international financial reporting matters following the impact of the global economic downturn. The G-20 countries, which include Australia, have reaffirmed their support for the creation of a single set of international accounting standards.

Progress has also been made in areas such as consolidations and off-balance sheet arrangements, fair value measurement and decognition. Financial instruments, loan loss provisioning and impairment will undergo review by the G-20 over the next six months.

This year, the Australian Accounting Standards Board (AASB) intends to propose a change to the differential reporting regime in Australia which will incorporate the use of the International Accounting Standards Board (IASBs) IFRS for SME standard, a significant change for Australia.

The Institute intends to maintain a prominent role in the decision-making process and will provide feedback to members on any new developments.

National Greenhouse and Energy Reporting System and Carbon Pollution Reduction Scheme
The Carbon Pollution Reduction Scheme has been delayed until 1 July 2011, giving entities more time to prepare.

The Institute will continue to provide advice to the government on how Australia’s tax laws should apply, and what amendments may be required to existing laws. We will also continue to liaise with the AUASB on auditing and assurance related matters affecting the National Greenhouse and Energy Reporting System. The trading of carbon will give rise to accounting implications, for which the Institute is well placed to provide input in accounting outcomes. Updating members on any new developments.

Ethical standards
The Code of Ethics for Professional Accountants, which was introduced by IFAC in 2006, has undergone a major revision. Key areas affected by the revision include the code’s independence provisions (which have been separated into those applicable to audit and review engagements, and those applicable to other assurance engagements) and changes introduced by IFAC’s ‘clarity’ project.

The APESB has announced that it will align its Code of Ethics for Professional Accountants (which is binding on Institute members) with IFAC’s amendments to ensure the code reflects these changes. The Institute will continue to keep members up to date on changes to the code.
Quality Review Committee

The Quality Review Committee (the Committee) oversees the Quality Review Program and advises the Institute on strategic direction. The Program’s policies and procedures are set by the Committee, comprised of Chartered Accountants as well as some non-members. The Chartered Accountants include a reviewer and members from a cross-section of public practices varying in size, specialisation and geographical location. The involvement of non-members ensures the Program is transparent and helps to protect the public interest.

<table>
<thead>
<tr>
<th>Committee member</th>
<th>Committee meetings</th>
<th>Held</th>
<th>Attended</th>
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</thead>
<tbody>
<tr>
<td>Dr Max Bessell FCA (Chair)</td>
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<tr>
<td>Max currently works at the University of Adelaide as an Associate Dean (International), where he has had involvement in quality reviews, degree developments, strategic initiatives and academic management. Prior to this, he worked for eight years at the University of South Australia. He joined the committee in 2003 and was appointed Chair in June 2007.</td>
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<tr>
<td>Bill Hassell</td>
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<tr>
<td>Bill joined the committee in August 2008. Bill’s consultancy work over the past 12 years has involved him in activities for a wide range of major corporations, SMEs and industry bodies. Bill is also a company director, an honorary consul and a member of the Commonwealth Government’s Innovation Australia Board. 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.</td>
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<tr>
<td>Nicholas (Nick) Hullah FCA</td>
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<tr>
<td>Nick joined the committee in June 2007 and was the Technical Director at the Audit Quality Review Board until December 2008. Nick provides independent consultancy services and expert witness work on audit and accounting matters. He was a partner with Deloitte for 26 years, including being partner in charge of Deloitte’s NSW audit practice from 1987 to 1993 and serving on the Board of Partners from 1994 to 2000. He retired from Deloitte in 2004.</td>
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<tr>
<td>Nancy Milne</td>
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<tr>
<td>Nancy joined the committee in June 2007. She is currently a consultant with Clayton Utz in Sydney, and prior to joining Clayton Utz was a partner at DLA Phillips Fox. Nancy serves on a number of audit and risk and compliance committees and was chair of Zurich Financial Services Australia until June 2008.</td>
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<tr>
<td>Rod Page FCA</td>
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<tr>
<td>Rod joined the committee in August 2008. He was a sole practitioner from 1989 until earlier this year, having commenced work in the accounting field in 1978. His areas of experience include business advisory, taxation, audit, and management consulting. Rod is also a reviewer for the Program.</td>
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<tr>
<td>Andrew Rigele CA</td>
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<tr>
<td>Andrew joined the committee in February 2009 and is currently a Director in the Audit and Assurance team of Grant Thornton, NSW. Andrew is responsible for coordinating the director 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. He is also Head of Risk and Compliance.</td>
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<tr>
<td>Liane Ringham</td>
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<tr>
<td>Liane joined the committee in 2004. She is the Managing Director and owner of INSIDE STORY Knowledge Management Pty Limited, a research-based consultancy advising Australian companies on branding and marketing.</td>
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<tr>
<td>Graeme Sampson FCA (retired November 2008)</td>
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<tr>
<td>Graeme was a member of the committee until November 2008 and was Chair for six years until June 2007. As a director of Grant Thornton in Western Australia until 30 June 2008, Graeme provided business and tax advice to clients, particularly in the wine and construction industries. He joined Newstream in July 2008.</td>
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</table>

Note: The committee met four times from 1 July 2008 to 30 June 2009. There are usually three meetings per annum but the June 2008 meeting was postponed until August 2008.
## Glossary of terms

<table>
<thead>
<tr>
<th>Abbreviation/ acronym</th>
<th>Name</th>
<th>Website (where applicable)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AASB</td>
<td>Australian Accounting Standards Board</td>
<td><a href="http://www.aasb.gov.au">www.aasb.gov.au</a></td>
</tr>
<tr>
<td>APESB</td>
<td>Accounting Professional and Ethical Standards Board</td>
<td><a href="http://www.apesb.org.au">www.apesb.org.au</a></td>
</tr>
<tr>
<td>APRA</td>
<td>Australian Prudential Regulation Authority</td>
<td><a href="http://www.apra.gov.au">www.apra.gov.au</a></td>
</tr>
<tr>
<td>AQRB</td>
<td>Audit Quality Review Board</td>
<td><a href="http://www.aqrb.org.au">www.aqrb.org.au</a></td>
</tr>
<tr>
<td>ASIC</td>
<td>Australian Securities &amp; Investments Commission</td>
<td><a href="http://www.asic.gov.au">www.asic.gov.au</a></td>
</tr>
<tr>
<td>ATO</td>
<td>Australian Taxation Office</td>
<td><a href="http://www.ato.gov.au">www.ato.gov.au</a></td>
</tr>
<tr>
<td>ASAs</td>
<td>Australian Auditing Standards</td>
<td><a href="http://www.auasb.gov.au">www.auasb.gov.au</a></td>
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<tr>
<td>AUASB</td>
<td>Auditing and Assurance Standards Board</td>
<td><a href="http://www.auasb.gov.au">www.auasb.gov.au</a></td>
</tr>
<tr>
<td>AUSTRAC</td>
<td>Australian Transaction Reports and Analysis Centre</td>
<td><a href="http://www.austrac.gov.au">www.austrac.gov.au</a></td>
</tr>
<tr>
<td>CPP</td>
<td>Certificate of Public Practice</td>
<td></td>
</tr>
<tr>
<td>FRC</td>
<td>Financial Reporting Council</td>
<td><a href="http://www.frc.gov.au">www.frc.gov.au</a></td>
</tr>
<tr>
<td>IAASB</td>
<td>International Auditing and Assurance Standards Board</td>
<td><a href="http://www.ifac.org/iaasb">www.ifac.org/iaasb</a></td>
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<tr>
<td>IASB</td>
<td>International Accounting Standards Board</td>
<td><a href="http://www.iasb.org">www.iasb.org</a></td>
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<td>IFAC</td>
<td>International Federation of Accountants</td>
<td><a href="http://www.ifac.org">www.ifac.org</a></td>
</tr>
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<td>ISAs</td>
<td>International Standards on Auditing</td>
<td><a href="http://www.ifac.org/iaasb">www.ifac.org/iaasb</a></td>
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<tr>
<td>RCA</td>
<td>Registered company auditor</td>
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<td>SMSFs</td>
<td>Self-managed superannuation funds</td>
<td></td>
</tr>
<tr>
<td>The committee</td>
<td>The Quality Review Committee</td>
<td></td>
</tr>
<tr>
<td>The Institute</td>
<td>The Institute of Chartered Accountants in Australia</td>
<td><a href="http://www.charteredaccountants.com.au">www.charteredaccountants.com.au</a></td>
</tr>
<tr>
<td>The Program</td>
<td>Quality Review Program</td>
<td><a href="http://www.charteredaccountants.com.au/qualityreview">www.charteredaccountants.com.au/qualityreview</a></td>
</tr>
</tbody>
</table>
Contact details

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