Annual Report on the Quality Review Program
For the year ended 30 June 2011
The Institute of Chartered Accountants in Australia (the Institute) is the professional body representing Chartered Accountants in Australia. Our reach extends to around 70,000 of today’s and tomorrow’s business leaders, representing approximately 57,000 Chartered Accountants and 13,000 of Australia’s best accounting graduates 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 108 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 Accountants brand. We also represent the interests of members to government, industry, academia and the general public by 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 over 800,000, 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 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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Foreword

The Australian accounting profession operates within a co-regulatory environment. This means the Institute works with other bodies such as the Australian Securities and Investments Commission and the Australian Taxation Office to regulate and govern the work of Chartered Accountants in practice.

The Quality Review Program (the Program) is a key component of this co-regulatory environment, assessing whether Chartered Accountants in practice have appropriate quality control policies and procedures in place to comply with professional standards and regulatory requirements. In broader terms, the Program forms part of the matrix of the Institute’s policies and programs that help promote, review and enforce the standards of conduct and performance of members in their day-to-day work.

The Annual Report on the Quality Review Program: For the year ended 30 June 2011 summarises the results of the past financial year, based on the quality reviews of practices ranging in size from national partnerships to sole practitioners.

In the interests of transparency, we report our findings to our members, the regulators and standard-setters that we work with, and the general public. While individual practices are not identified, the trends, issues and results of reviews are summarised to form the basis for the findings contained in this report.

At the Institute, our aim is to serve our members and the broader public. We are committed to leading the profession and setting the benchmark for the highest ethical, professional and educational standards. In doing this, we accept and embrace the core principle at the heart of our code of ethics: the accounting profession has a responsibility to act in the public interest.

I would like to acknowledge the assistance and dedication of the Quality Review Committee and the reviewers who help deliver a world class Program. As it matures, the Program needs to continue to develop to add value to practices and retain its world best-practice status. This is imperative to maintain the trust and confidence of our members and their clients, regulators and other stakeholders.

If you have any queries about the report, please contact our Quality Review team on 02 9290 5723.

Rachel Grimes FCA
President
The Institute of Chartered Accountants in Australia
Executive summary

The Institute’s Quality Review Program assesses whether our practitioner members have implemented appropriate quality control policies and procedures in their accounting practices. By identifying any areas where these policies and procedures are not appropriate to maintain compliance with standards and legal requirements, we can 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.

What have we found?
Overall results from quality reviews conducted during 2010 – 2011 remained consistent with 2009 – 2010 results. The great majority of practices (78%) 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. Although there is room for improvement, this indicates practices are maintaining their commitment to quality despite the rapid pace of change to standards and legislation and the challenges of recent economic conditions and natural disasters.

What does this mean?
In-depth analysis of the 2010 – 2011 results reveals an encouraging trend, with overall compliance with auditing standards continuing to increase during the period, as was the case in 2009 – 2010. Some practices revealed an increased number of departures from standards in non-audit areas, and we identified these as being predominantly where practices were adapting their policies and procedures to new standards.

What are we doing?
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
> We analyse review results in detail to direct Institute resources and services where they are most needed
> We use the results and issues arising from the Program to inform our advocacy with regulators and standard-setters.

How are we evolving the Program?
As the Program matures, it needs to continue to develop to add value to practices and retain its world best-practice status. This is imperative to maintain the trust and confidence of members and their clients, regulators and other stakeholders. In 2010, we released a thought leadership paper Quality Review: past, present and future outlining the Program’s direction within our fundamental objective of adding value to reviews while minimising duplication.

Where is the Program within the regulatory environment?
The Australian accounting profession exists within a co-regulatory environment. This means the Institute works with other regulatory bodies in Australia and internationally to regulate and govern the work of Chartered Accountants in practice. 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.

For example with Europe’s audit profession under the spotlight, the Institute has been influential in two major international reviews. The first was conducted by the UK House of Lords and the Institute accepted their invitation to give evidence to the inquiry. Owing to our global experiences and international presence, we were the only non-UK group to give evidence. We also responded to the European Commission’s Green Paper focussing on the audit function and the role of the profession in financial stability, with our participation in the follow-up roundtable discussion in Brussels.
About the Institute’s Quality Review Program

The Program’s role is to assess whether our practitioner members have implemented appropriate quality control policies and procedures in their accounting practices. By identifying any areas where these policies and procedures are not appropriate to maintain compliance with standards and regulatory requirements, we can 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.

In the interests of transparency, we report our findings to our members, the regulators and standard-setters that we work with, and the general public. While individual practices are not identified, the trends, issues, and results of reviews are summarised to form the basis for the findings contained in this report.

Integral to co-regulatory recognition

The Australian accounting profession exists within a co-regulatory environment. This means the Institute works with other bodies such as ASIC and the ATO to regulate and govern the work of Chartered Accountants in practice. The Program is a key feature of this co-regulatory environment, conferring on the Institute recognition as a ‘professional accounting body’, a designation essential for many of the activities conducted by our members.

The Program is recognised as fulfilling 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. As a result, practitioners have been granted limited liability under professional indemnity insurance, subject to certain conditions.

See page 17 for details on how the Program plays an integral role in the co-regulatory environment.

Governance

The strategic direction of the Program is monitored by the Institute’s Quality Review Committee, comprising 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 non-members, independent of the profession and the membership, to represent the public interest and to increase the transparency of the Program.

The committee monitors the Program’s efficiency and effectiveness, and keeps a close eye on regulatory changes and developments in other quality review programs in Australia and overseas to identify relevant issues and trends. Through this process, the committee assists the Institute’s board and management to oversee and develop the Program, ensuring it continues to add value to practices and retains its world-best practice status.

More information on each member of the committee is included on page 24.

Measuring the success of the Program

We measure the success of the Program by closely monitoring the results of reviews; assessing the reviews that fall into each result category and the number and significance of non-compliance issues. These results are included in this report.

In analysing these results, we have considered the evolution of the Program from an educational focus to a compliance-based approach, and some issues initially regarded as minor are now regarded as significant. We have also considered the increase in the number and complexity of standards and other regulatory requirements since the Program commenced. Against this backdrop, we are pleased to find the results of the Program have remained relatively constant over recent years despite the rapid pace of change to standards and legislation and the challenges of recent economic conditions and natural disasters.

We also measure the success of the Program in terms of the remediation implemented by practices to address any non-compliance issues revealed during their review.

Cycle of continuous improvement
The review process

Step 1
Practice selected for review

Step 2
Practice completes questionnaire about the practice and its services

Step 3
Practice notified of proposed reviewer

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

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

Step 6
The Institute reviews report and then issues its own review results letter to the practice

Review results letter is one of four types

Step 7

<table>
<thead>
<tr>
<th>No departures from professional standards</th>
<th>Departure(s) from professional standards, not classified as serious</th>
<th>Follow-up review required</th>
<th>Referral to the Institute’s disciplinary processes for investigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Practice invoiced for review fee</td>
<td>Practice invoiced for review fee</td>
<td>Practice invoiced for review fee</td>
<td>Practice invoiced for review fee</td>
</tr>
<tr>
<td>No further action required</td>
<td>Practice addresses issues</td>
<td>Practice provides an action plan to the Institute to address compliance issues</td>
<td>Disciplinary investigation</td>
</tr>
<tr>
<td>Practice confirms in writing to the Institute that issues have been addressed (within six months)</td>
<td>Return to step 1 (within one year)</td>
<td>Sanctions imposed, where appropriate</td>
<td></td>
</tr>
</tbody>
</table>

If members do not comply with this process, they may be referred to the Institute’s Board, the Quality Review Committee, or the Professional Conduct Tribunal for disciplinary action.
Who is reviewed?

The Program is a risk-based model, both in the timing of reviews for practices and in the type of services reviewed within a practice.

Our Program aims to review practices at least once every five years. In most cases, this involves a reviewer visiting the practice and examining the practice’s manuals and workpapers. A limited number of small practices are eligible for a self-assessment review1 rather than a reviewer visit.

We aim to review practices that sign-off on audits requiring an RCA registration at least once every three rather than five years. Monitoring RCAs every three years was introduced by the Institute in 2008 as the auditing standards became enforceable under the Corporations Act (2001), reflecting the higher level of public accountability incumbent in these audits.

If significant non-compliance issues are revealed during a review of any type, the practice is reviewed within one year to ensure remedial action has been implemented by the practice.

Selection for a quality review as part of the Program is in no way a reflection on the practice; all practices are selected for a review. New practices are selected randomly for a first review with subsequent reviews every three or five years.

What happens in a quality review?

During a quality review, an Institute-appointed reviewer visits a practice. He or she reviews the quality control policies and procedures that the practice has established by considering the practice’s quality control system and examining how this is applied to individual engagements. This is achieved by covering the following elements 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, and Other Assurance Engagements:

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

Reviewers do this 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. Reviewers do not assess the appropriateness of the opinions issued, or the advice provided, by members.

Reviewers base their reviews on tailored questionnaires developed by the Institute. These review questionnaires are freely 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.

Once the reviewer has completed their review, the outcome is presented to the practice in two ways. Firstly, the reviewer presents a report of their findings, and in many cases best-practice recommendations, to the practice. Practitioners are encouraged to comment on the report, which is then returned to the Institute together with the completed review questionnaires. Secondly, based on the reviewer’s report and practice comments, the Institute prepares and sends a review results letter.

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.

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1. Sole practitioners holding a full Certificate of Public Practice (CPP) are eligible to request a self-assessment review rather than be visited by a reviewer, if they are not RCAs and have gross fees under $50,000. This also applies to sole practitioners holding a concessional CPP at a one-third rate.
What are the results of a review?

After a review, the Institute issues the practice with one of the following four review results letters, explaining any departures from standards and/or regulatory requirements and remediation action required by the practice:

<table>
<thead>
<tr>
<th>Review results letter</th>
<th>Action required</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 comply with professional standards and regulatory requirements.</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><strong>Departure(s) from professional standards, not classified as serious</strong>&lt;br&gt;This applies to practices where quality control policies and procedures appear substantially adequate to comply 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 there is insufficient documentation and it is considered to be unlikely to affect the overall audit opinion.</td>
<td>We request that the practice confirms 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 comply 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 there is insufficient audit evidence to support the overall audit opinion.</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 disciplinary processes for investigation. Our 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 disciplinary process for investigation.</td>
</tr>
</tbody>
</table>
Who are the quality reviewers?
All our reviewers are experienced Chartered Accountants who work, or have worked, in public practice.

Our reviewers are selected because of their professional reputation and practice experience. Their expertise and experience is matched as closely as possible to the practice under review to enhance the efficiency and effectiveness of reviews.

‘I was very impressed with the whole process and particularly the professionalism of the reviewer. He was thorough in the work he carried out and clearly explained all matters arising.’

Mark Power CA, Mark Power Pty Ltd

As Chartered Accountants, our reviewers are bound by the profession’s code of ethics: APES 110. They are also bound by strict agreements under the terms and conditions of their appointment with the Institute. These ensure a standard and professional approach to reviews and the confidentiality of all information encountered during a review. Reviewers are bound not to disclose any identifying information about the practice, its personnel or its clients other than to the Institute’s quality review staff, except:

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

Remediation
A key objective of the Program is to maintain and support the high level of client service provided by our practitioner members. Where non-compliance with standards is identified during a review, we act to ensure the practice has addressed the non-compliance:

- The majority of reviews indicate that practices have appropriate quality control policies and procedures in place and any non-compliance with standards is not classified as serious. We require these practices to confirm they have addressed the issues identified within six months
- Where more significant non-compliance issues have been identified, we work with the practice to address the issues. A practice is required within two months to develop and submit to the Institute a detailed action plan outlining the measures it is implementing to address each of the issues identified. We conduct a desk review to ensure the action plan is appropriate. Within one year a reviewer visits the practice to confirm measures outlined in the action plan have been implemented, and the areas of non-compliance have been effectively rectified. This approach is designed to ensure the practice remediates its policies and procedures within a reasonable timeframe, and to check the revised policies and procedures are effectively implemented for the next round of annual client engagements.

In accordance with our Retention of, and Access to, Quality Review Documentation policy, issued in 2008, we also retain all quality review results letters, and any associated correspondence, on file. A copy of the review results letter and any associated correspondence will be provided to the practice at the time of their selection for their next review. These documents will also be provided to the reviewer for the next review to track progress at that review. The review results letter and any associated correspondence will be destroyed upon completion of the next review. This will allow quality reviewers to see how practices have progressed over time, by comparing the review result with the previous result.

How does the Program maintain its integrity?
The Program is conducted in accordance with strict quality control procedures to ensure consistency and confidentiality of reviews, under the oversight of the Quality Review Committee.

The Institute has a range of strategies in place to identify any members conducting a practice without holding an Institute Certificate of Public Practice (CPP) or equivalent. Members holding a CPP are subject to specific Institute obligations relevant to conducting an accounting practice, including implementing an appropriate quality control system and holding sufficient professional indemnity insurance. The Program is an important element of monitoring of these activities, and is based on members holding a CPP, as noted on page 8.

An initiative of the Program during 2010 – 2011 has been to match members of the Institute with ASIC’s register of RCAs. We know a number of members maintain their RCA status but are no longer conducting audits or any other client engagements, and we refer to these as ‘monitored members’. We are writing to all members who are RCAs and not monitored members or holding a CPP to clarify their status, and importantly to confirm they are not conducting audits or undertaking any other engagements that would require them to hold a CPP.

In the coming financial year, we will continue this initiative with members holding other statutory registrations. Our next priority is registered company liquidators.

We also benchmark our Program against programs conducted by regulators and other accounting bodies in Australia and overseas. In recent years we have made detailed comparisons
with the programs of professional accounting associations in the US, the UK, New Zealand and Canada. We found that our program meets or exceeds international best-practice in most respects, and where we find areas of improvement, we incorporate them into our Program. It is interesting to note that the non-compliance issues we identify most commonly are also identified in many other jurisdictions.

What are the limitations of the Program?

There are a number of limitations including:

> For members in practice, a review is a mandatory part of Institute membership. It is conducted on a professional basis. It is not an investigation, as the Institute does not have legal power to seek information

> 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 audits. For auditors of SMSFs, the government has recently announced the establishment of a register. This is a position we supported in our Cooper Review submissions. For non-audit clients we are reliant 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 and 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 encourage members to seek permission from their clients in the initial terms of engagement.
2010 – 2011 quality review results

Overall results from quality reviews conducted during 2010 – 2011 remained generally consistent with 2009 – 2010 results. The great majority of practices (78%) 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. Although there is room for improvement, this indicates practices are maintaining their commitment to quality. This is despite the rapid pace of change to standards and legislation in the period since their previous review and the challenges of recent economic conditions and natural disasters.

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
> We analyse review results in detail to direct Institute resources and services where they are most needed
> We use the results and issues arising from the Program to inform our advocacy with regulators and standard-setters.

During the financial year, 432 practices were reviewed. This compares to 456 in the 2009 – 2010 year, and 468 in 2008 – 2009.

Overall results

Each practice that is reviewed is issued with one of four types of review results letters, as explained on page 9. The following results letters were issued in the year ended 30 June 2011:

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<tbody>
<tr>
<td>No departures from professional standards</td>
<td>8%</td>
<td>6%</td>
<td>5%</td>
</tr>
<tr>
<td>Departure(s) from professional standards, not classified as serious</td>
<td>71%</td>
<td>74%</td>
<td>73%</td>
</tr>
<tr>
<td>Follow-up review required</td>
<td>21%</td>
<td>19.5%</td>
<td>22%</td>
</tr>
<tr>
<td>Referral to the Institute’s disciplinary processes for investigation</td>
<td>0%</td>
<td>0.5%</td>
<td>0.5%</td>
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</table>

Note: These figures are presented as percentages as the total number of reviews varies from year-to-year.
Common non-compliance issues
Having established these top-line figures, we look deeper into the review results to establish any patterns of non-compliance. In-depth analysis of the 2010 – 2011 results reveals an encouraging trend, with overall compliance with auditing standards continuing to increase during the period, as was the case in 2009 – 2010. Some practices revealed an increased number of departures from standards in non-audit areas, and we identified these as being predominantly where practices were adapting their policies and procedures to new standards.

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. Some practices need to refine their systems by improving aspects of this documentation. To assist members the Institute has published a 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.

<table>
<thead>
<tr>
<th>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, and Other Assurance Engagements</th>
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</thead>
<tbody>
<tr>
<td>&gt; A system of quality control does not appear to have been implemented</td>
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<tr>
<td>&gt; A system of quality control does not appear to have been adequately documented</td>
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<tr>
<td>&gt; Consideration of client relationship not documented prior to commencing work</td>
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<tr>
<td>&gt; No annual written confirmation of compliance on independence</td>
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Training and development
Quality reviews revealed a shortfall in some practitioner members meeting regulatory requirements surrounding minimum required hours of training and development. This was 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% of their hours in each of their specialist areas. The Institute endeavours to supply sufficient opportunities for a member to undertake adequate and appropriate training and development activities. An Institute initiative is LiveOne, interactive web based training, accessible by members from any location including regional areas and overseas.

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 the requirements for two consecutive years.

<table>
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<tr>
<th>R7: Regulations Relating to Training and Development</th>
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<tbody>
<tr>
<td>&gt; Minimum required hours of Training and Development not completed</td>
</tr>
<tr>
<td>&gt; Minimum required hours of Training and Development in respect of statutory audit registration not completed</td>
</tr>
<tr>
<td>&gt; Minimum required hours of Training and Development as set out in the Competency Requirements for Auditors of Self-Managed Superannuation Funds not completed</td>
</tr>
</tbody>
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Audit

Although overall compliance with the auditing standards continues to improve, based on the results for the financial year our main concern continues to be a lack of documentation. The review of a small number of practices revealed insufficient documentation supporting the audit opinion; more commonly there was insufficient documentation as required by the auditing standards to support a particular audit area. The most common standards where compliance was not evidenced by sufficient audit documentation are listed in the table below.

Where documentation was inadequate, the auditor had failed to document all the work they had done in order to reach their conclusions. 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-backed 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.

During the year, we continued to see a trend of members either specialising in audit, or resigning from all audit engagements as members recognise that auditing is an advanced technical skill. This reflects the increasing complexity and regulation of audit, requiring a significant investment of practice resources to maintain audit competence.

Quality reviews are an important mechanism to help practitioners decide whether they are competent and adequately equipped to perform audits. The Institute assists practitioners who wish to specialise in audit in a number of ways including publishing an audit manual and toolkit, specifically designed with small audits in mind.

### Auditing standards issues

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<tr>
<td>ASA 230: Audit Documentation and ASA 500: Audit Evidence</td>
<td>13</td>
<td>16</td>
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<td>ASA 210: Terms of Audit Engagements</td>
<td>16</td>
<td>15</td>
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<tr>
<td>ASA 220: Quality Control for Audits of Historical Financial Information</td>
<td>31</td>
<td>18</td>
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<tr>
<td>ASA 300: Planning an Audit of a Financial Report</td>
<td>17</td>
<td>16</td>
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<tr>
<td>ASA 315: Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement</td>
<td>29</td>
<td>34</td>
</tr>
<tr>
<td>ASA 520: Analytical Procedures</td>
<td>29</td>
<td>30</td>
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<tr>
<td>ASA 560: Subsequent Events</td>
<td>25</td>
<td>26</td>
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<tr>
<td>ASA 570: Going Concern</td>
<td>12</td>
<td>15</td>
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<tr>
<td>ASA 580: Management Representations</td>
<td>21</td>
<td>23</td>
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### Auditor independence issues

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<tr>
<td>APES 110: Code of Ethics for Professional Accountants</td>
<td>9</td>
<td>10</td>
</tr>
<tr>
<td>&gt; No documentation or inadequate documentation when considering threats to independence</td>
<td>9</td>
<td>10</td>
</tr>
<tr>
<td>&gt; Appropriate safeguards were not adequately applied when carrying out audit and accounting functions for a client</td>
<td>9</td>
<td>11</td>
</tr>
<tr>
<td>&gt; Auditing the SMSF of a partner in their practice</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>
Other practice areas
We found compliance with standards governing practice areas, other than audit, declined during the year. Close analysis of this trend revealed this was where new standards were introduced, and practices at times took a while to adjust to the changes.

We have taken these results on board by being more proactive in alerting members to change and providing tools to assist members in the transition to these new standards.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>APES 205: Conformity with Accounting Standards</td>
<td>&gt; Financial reports do not clearly state that they are special purpose</td>
<td>19</td>
<td>18</td>
</tr>
<tr>
<td>APES 305: Terms of Engagement</td>
<td></td>
<td>30</td>
<td>13*</td>
</tr>
<tr>
<td>APES 315: Compilation of Financial Information</td>
<td>&gt; Compilation reports not in accordance with APES 315</td>
<td>26</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td>&gt; Financial reports do not always clearly state that the financial information has not been audited</td>
<td>18</td>
<td>17</td>
</tr>
<tr>
<td></td>
<td>&gt; No acknowledgement was obtained 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>22</td>
<td>9*</td>
</tr>
<tr>
<td>APES 220: Taxation Services</td>
<td>&gt; The client was not provided with a statement in writing that the client is responsible for the accuracy and completeness of the information they provide</td>
<td>48</td>
<td>20*</td>
</tr>
</tbody>
</table>

* Note: this was a new requirement that applied to only some of the engagements reviewed in the 2009 – 2010 financial year.

Practices that provide certain services
We also analyse review results by considering the different types of services provided by practices. This assists us to identify the types of practices and services with a higher risk of non-compliance with requirements.

Audit services are governed by an exhaustive set of standards (when compared with those for, say, compilation or tax engagements). Therefore, reviews of practices that conduct audits focus strongly in this area and we have identified audit services as a high-risk area during a review.

Our analysis indicates audits undertaken under the Corporations Act tend to have a higher level of non-compliance; typically these are larger, more complex audits subject to a wider range of auditing requirements. Within this framework we are pleased to see the level of non-compliance remaining relatively consistent, particularly in relation to significant non-compliance issues.

This year reveals an increased level of non-compliance among practices that conduct audits other than Corporations Act audits together with other types of services, and practices that do not conduct audits. These practices tend to conduct a higher proportion of compilation and taxation services, where new standards have resulted in higher levels of non-compliance during the year as practices adjust to the new requirements.
Practices that undertake audits under the Corporations Act

<table>
<thead>
<tr>
<th>Year</th>
<th>No departures from professional standards</th>
<th>Departure(s) from professional standards, not classified as serious</th>
<th>Follow-up review required</th>
<th>Referral to the Institute's disciplinary processes for investigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010 – 2011</td>
<td>72%</td>
<td>27%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009 – 2010</td>
<td>73%</td>
<td>26%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008 – 2009</td>
<td>72%</td>
<td>28%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Practices that undertake other types of audit

<table>
<thead>
<tr>
<th>Year</th>
<th>Practices that undertake other (non-audit) services</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010 – 2011</td>
<td>80%</td>
</tr>
<tr>
<td>2009 – 2010</td>
<td>81%</td>
</tr>
<tr>
<td>2008 – 2009</td>
<td>80%</td>
</tr>
</tbody>
</table>

Practices reviewed according to size

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 exception is for the Big 4 firms (Deloitte, Ernst & Young, KPMG and PwC). These practices were reviewed by the AQRB for the three years to 2009, with these reviews being relied on by the Institute. The practices are also subject to ASIC inspections. As the AQRB has completed its mandate, Institute reviews of the Big 4 are recommencing.
The role of the Program

We are committed to leading the profession; setting the benchmark for the highest ethical, professional and educational standards. In doing this we accept and embrace the core principle at the heart of our code of ethics; the accounting profession has a responsibility to act in the public interest. The Program plays an important part in this process, working with regulators to uphold and improve the standards of our practitioner members, and working within the Institute supporting our members’ endeavours.

Our leading role in the profession was recognised during the year when the Institute was called upon by the UK’s House of Lords in November 2010 during its review of the scope of audit. The Institute’s Executive General Manager Members, Lee White and Andrew Stringer, Head of Audit, gave evidence, emphasising that the value and relevance of an audit could be greatly enhanced through careful consideration and implementation of continuous assurance.

‘External audit services are synonymous with the accounting profession. From the business perspective, there is strong support to uphold audit quality and continuous assurance through high-level leadership papers and analysis.’

Lee White FCA, Executive General Manager Members

Quality Review Program: integral to the co-regulatory environment

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.

Some of the key ways we do this are explained below.

Facilitates liability capping for members

Liability capping under the professional standards schemes represents the first leg of the Institute’s strategy to achieve long term changes to a competitive and sustainable professional indemnity insurance market in Australia for our members. This protects the interests of consumers, enabling them to deal with professionals who have access to affordable professional indemnity insurance and who provide high quality services.

These schemes, administered by the Professional Standards Council, require participating occupational associations to implement strategies for monitoring and improving professional standards and protecting consumers. Conducting the Program satisfies one of the essential criteria for the Institute to be recognised under the schemes.

Conducting the Program essential for membership of IFAC

Quality assurance is a compulsory obligation of full membership of IFAC, the accounting profession’s peak international body. Membership of IFAC enables Institute members to benefit from the Institute being classified under legislation, such as the Corporations Act, as a ‘professional accounting body’.
Monitoring auditor independence on behalf of the FRC

The FRC is a statutory body established under the ASIC Act. Among other activities it has responsibility for the effectiveness of the auditor independence regime in Australia. Rather than monitoring individual practices, the FRC relies on the reviews of the professional accounting bodies to fulfil this responsibility.

Under our memorandum of understanding with the FRC, the Institute monitors and reports on auditor independence as part of the review program. This includes reviewing each practice’s policies and procedures in relation to auditor independence, as well as considering whether these policies and procedures have been applied in individual audit engagements. If any issues related to independence are found, the Institute requires the practice to remediate the situation on a timely basis. We also act proactively on independence issues. For example, we wrote to registered company auditors in 2009 (excluding Big 4 and mid-tier) as the auditor rotation requirements became fully operational, reminding them of their obligations and requiring confirmation they had appropriate rotation policies and procedures in place.

We were pleased to read in the FRC’s Annual Report for 2009 – 2010 that the FRC was not aware of any deficiencies in either the systems or processes used by the professional accounting bodies for planning and performing quality reviews of audit work, or in the overall adequacy of the professional accounting bodies’ investigation and disciplinary activities.

Working with ASIC to enhance audit quality

We are committed to audit quality and support ASIC’s role in regulating auditors.

As mentioned previously in this report, an initiative of the Program during 2010 – 2011 has been to match members with ASIC’s register of RCAs. As such, we can ascertain whether our members who are RCAs are fulfilling their professional obligations, complementing ASIC’s regulatory activities.

We are also commencing the next round of quality reviews for the major practices starting with Deloitte, Ernst & Young, KPMG, PwC and Grant Thornton. We will be implementing our innovative approach, focussing on the drivers of audit quality across the audit practice to establish whether the audit function is conducted within an appropriate control environment and relying on the detailed ASIC inspections and the national and international reviews of the firms, rather than reviewing individual audit engagements. This approach, enhancing rather than duplicating ASIC inspections, is designed to take a holistic approach to audit quality, ultimately resulting in enhanced audit quality throughout the profession. Our approach is detailed later in this report under An update to Quality Review: past, present and future.
Working with the AUASB and IAASB to promote effective auditing standards

This financial year saw the implementation of the AUASB’s Clarity suite of auditing standards. These new standards, based on the IAASB’s revised and updated standards, are considered to be world best-practice for the audit profession. Through the Program we have identified the transition to new requirements poses an increased risk of non-compliance, so the Institute has invested significant resources to help members meet the challenge of these new standards in a range of different ways, detailed in the next section of this report: Quality Review Program: integral to the Institute serving its members and the public interest.

On-going, we are supporting the IAASB’s Clarity monitoring project at the request of the AUASB. By working with a sample of small and medium practices we are assisting the IAASB to assess the effectiveness of the Clarity standards – both in terms of whether they result in improvements to audit practice and also to assess the effectiveness of their introduction. The AUASB and the Institute are keen to support this project, to provide feedback to the IAASB and thereby assist in the improvement of auditing standards internationally. This will also provide useful intelligence on how to improve implementation of future changes in Australia.

The Program is playing an important role in this project, obtaining members’ feedback on the Clarity standards as part of quality reviews. This will enable us to quantitatively measure the effectiveness of the Clarity standards, to add to the information gleaned from the detailed survey results from our sample of practices.

Working cooperatively with the IPA to review insolvency practitioners

With liquidators and administrators under the spotlight, the Institute is developing the Program to enhance the review of members operating in the insolvency industry. Chartered Accountants who are liquidators and administrators are typically also members of the Insolvency Practitioners Association (IPA) of Australia. To review these members effectively, the Institute and the IPA have committed to work cooperatively. We anticipate reviews will be conducted by specialist insolvency reviewers under the auspices of the Institute’s Program, with technical input from the IPA. These reviews will be accepted by both bodies as satisfying the professional obligations of each body.

In proposing these reviews, the Institute and the IPA are monitoring developments arising from the Senate Liquidators and Administrators report, The regulation, registration and remuneration of insolvency practitioners in Australia; the case for a new framework, released in September 2010.

Enhancing governance over auditors of self-managed superannuation funds

Approved auditors of SMSFs are subject to an ‘approved auditor compliance program’ under the auspices of the ATO. The ATO has regard to the competency requirements and professional obligations imposed by the Institute on its members, including quality reviews and auditing and independence standards.

We continue to monitor developments in this area as the government introduces its superannuation reforms. Proposals as at 30 June 2011 are that all approved SMSF auditors will be required to adhere to minimum competency requirements and meet independence standards as part of an ongoing registration with ASIC.
More than 95% of Australia’s 11,500 SMSF auditors are members of the three professional accounting bodies and are bound by minimum competency requirements and specific professional and ethical standards – including around independence – set by the APESB.

‘The Institute has long been calling for the existing standards to apply to 100% of SMSF auditors, so we are very pleased the government has not only acknowledged the high benchmark we have set, but also recognises the need for its wholesale adoption. We look forward to working with the government and ASIC to make it happen.’

Liz Westover CA, Head of Superannuation

Advocating improvements to regulation

The Institute represents the public interest and the interests of our members to government, standard-setters, industry, academia and the general public by engaging our membership and local and international bodies on public policy, government legislation and regulatory issues. In this way we inform the public debate and are also able to update members on the latest developments.

The Program is integral to our advocacy, particularly relating to public practice. Quality reviewers visit individual accounting practices, giving reviewers a unique insight into how regulations are applied in practice. The input of reviewers is especially important in relation to issues for smaller practices, where the practitioners themselves rarely have time to be involved in the Institute’s advocacy activities.

Quality Review Program: integral to the Institute serving its members and the public interest

‘...we continue to support members, promoting the highest levels of service and professionalism.’

Graham Meyer, CEO

A successful Program effectively contributes to improving the quality of services being delivered by practices. This comes directly from the remediation actions taken by the practices in response to the issues identified. It also comes from the close collaboration between the Institute’s quality review team and other teams at the Institute, ensuring the Program’s results and trends are reflected in activities such as seminars, products and newsletters.

Quality reviewers have a unique relationship with practitioners, as peers who meet with practitioners on a cyclical basis in their own offices. As well as conducting quality reviews and enabling the reviewers to inform the Institute’s advocacy activities, as already discussed, reviewers play a very important role in suggesting to members how they can improve their practice. We facilitate this by providing reviewers with samples of Institute tools and training materials to demonstrate to members how they can remediate or improve any issues that have come to light during reviews.

‘When I arrived at the practice I found the practitioner snowed under; working long hours yet the work was piling up. I explained he was his most important client and if he was struggling he was letting his clients down.

He took my advice, developed his Quality Control Manual and systems, restructured his practice and started saying “no” to clients and work that did not fit his practice. His wife subsequently called me, grateful for the support and advice I had provided her husband in developing a healthy and profitable business.’

Paul Ginman FCA, Institute quality reviewer
Key 2010 – 2011 initiatives
Four initiatives for members arising from the Program this year are described below.

Supporting the introduction of Clarity standards
Analysis of Program results reveals the transition to new standards poses an increased risk of non-compliance, highlighting the need for the Institute to work with members promptly adapting to new requirements. The most significant change facing members during 2010 – 2011 was the introduction of the Clarity suite of auditing standards – auditors faced a completely revised set of audit requirements for the 30 June 2011 year end. This is why we invested significant resources to assist members in the transition to these standards. As well as communicating these resources through our website, Charter magazine and newsletters, in March 2011 we wrote to each member in practice alerting them to the changes and the resources available to assist in their transition. As the Clarity auditing standards become a reality, Institute quality reviewers are focussing on whether auditors have fully adapted their policies and procedures to these new standards. Where practices are still in transition, reviewers and the Institute are working with practices until their policies and procedures are fully updated. Refer to Appendix 3 for a list of Institute guidance and tools available to assist members implement the Clarity standards.

Auditor independence
Independence is fundamental to high quality auditing, and an area of ongoing focus for the Program and the Institute. The FRC’s Annual Report for 2009 – 2010 noted the FRC’s concern that smaller firms appreciate the importance of having robust systems and processes that comply with all applicable auditor independence requirements. We share this concern and have implemented a number of measures to address this. The Program monitors auditor independence, educating practitioners and requiring them to remediate their practices where appropriate. Other Institute strategies include:

> Offering training and development sessions on auditor independence, including sessions at the audit conferences and public practice conferences presented around Australia
> Supporting members with a free member helpline, staffed by the Institute’s Professional Standards team (02 9290 5627).

Communicating the results of quality reviews
This report highlights common non-compliance issues arising in quality reviews. During 2010 – 2011 we have communicated these issues directly to members through specific training sessions, highlighting ‘Top 10’ issues that need improvement and providing appropriate tools and resources for members to address these issues. The success of this initiative has prompted the quality review and training and development teams to continue to work together on similar future sessions. ‘Top 10 non-compliance issues for SMSF auditors’ is planned for 2011 – 2012. We also highlight this report to members through our regular member newsletters and Charter magazine.

> We found the reviewer very informative and direct in his approach. His feedback and insights to specific areas of improvement has certainly enhanced our protocols and systems. We welcomed the requirements and we are initiating those accordingly.’

Jason Wall CA, Stannards Accountants and Advisors Pty Ltd

Leaving the profession in capable hands
Practitioner feedback has highlighted an important issue for accounting practices: the ‘work readiness’ of accounting graduates. As an identified driver of quality as outlined in Appendix 2, the skills and personal qualities of staff are crucial to audit quality and hence the future of the audit profession.

To address this issue the Institute has teamed with academia to explore ways the auditing profession in particular can bridge the gap between university and professional life for graduates. Our initial steps are to collate and analyse data on graduate employees and their perceptions and development, through an online survey of audit specialist practitioners and members, CA Program candidates and graduates in major firms.
An update to Quality Review: past, present and future

In 2010 we released a thought leadership paper Quality Review: past, present and future outlining the Program’s direction. This paper updates the Institute’s progress on two of the themes we explored last year.

As the Program matures it needs to evolve to add value to practices and retain its world best-practice status. This is imperative to maintain the trust and confidence of members and their clients, regulators and other stakeholders.

Continuous improvement of the Program

In 2010 we outlined our approach to continuously improve the Program to:

> Develop an innovative approach to quality review that ‘will look and feel different’ to current review approaches by professional accounting bodies and regulators
> Minimise duplication of quality review work already being undertaken by all stakeholders
> Add immediate value to the firm being reviewed
> Add value to all members by using the results of the Program to influence policy and reforms, including education.

We have now refined our thinking and are implementing an innovative review approach for the major firms and extending the Program to include the review of financial planning services and insolvency services. In doing so, we remain focussed on our fundamental objectives of adding value to reviews while minimising duplication.

Audit practices of major firms

The Institute’s Quality Review Program is currently commencing the next round of quality reviews for major firms, starting with Deloitte, Ernst & Young, KPMG, PwC and Grant Thornton. These reviews use our new holistic approach, focussing on reviewing the drivers of audit quality to establish whether the audit function is conducted within a high quality control environment.

For the compliance aspect of audit reviews we will rely on ASIC’s Audit Inspection Program and the firms’ national and international reviews, together with examining any remedial action taken by the firms. We will continue to review the other practice areas of the firms, based on a risk assessment of the type of work undertaken and the extent of other internal and external reviews of the firm.

This approach, enhancing rather than duplicating ASIC inspections, will add value for practices by analysing audit quality in depth and add efficiency by avoiding duplication of ASIC and other reviews. Ultimately this will enhance audit quality throughout the profession, a fundamental objective of our commitment to the public interest.

Financial planners

Given the increasing importance of the financial planning sector together with its high profile, we are reassessing how the Program reviews financial planning services conducted by practices.

Practices predominantly conduct financial planning services as authorised representatives of a holder of an Australian Financial Services Licence (AFSL), operating through a dealer group. Under this model the dealer group designs and owns the group’s quality control policies and procedures and is legally and constructively obliged to ensure their authorised representatives comply with the financial planning laws.

Some members offer financial planning services on their own account as holders of an AFSL. In other cases members offer financial planning services inadvertently, on their own account, not realising that what they see as their traditional activity is now regulated financial planning.

Our challenge is to enhance our review methodology for members offering financial planning services to ensure that they have quality control policies and procedures in place that appear adequate to comply with professional standards and regulatory requirements. The review approach will not assess the appropriateness of the advice provided by members, as is the policy for all Institute reviews.

All practices, that are not an authorised representative of an AFSL or hold an AFSL, will be asked a series of questions to ascertain whether they are inadvertently offering financial planning services.
Insolvency practitioners
Chartered Accountants who are insolvency practitioners are often members of both the Institute and the IPA. To review these members effectively, the Institute and the IPA have committed to work cooperatively so members are reviewed under the auspices of the Institute’s Program, with technical input from the IPA.

In proposing these arrangements, the Institute and the IPA are monitoring developments arising from the Senate Liquidators and Administrators report: *The regulation, registration and remuneration of insolvency practitioners in Australia; the case for a new framework* released in September 2010. The Institute has been closely involved with the Senate Committee by making a detailed submission and being invited to provide evidence.

We were pleased to see during the year another example of the co-regulatory regime developing complementary procedures, working together to enhance audit quality. The European Commission has recognised ASIC’s auditor oversight of auditors, opening the door for EU audit regulators to rely on ASIC audit firm inspections rather than carrying out their own inspections of Australian audit firms that audit Australian companies listed in Europe or Australian subsidiaries of European companies. We support ASIC commissioner, Michael Dwyer’s views: ‘This eliminates potentially unnecessary duplication of effort and reduces the regulatory burden on Australian auditors’.

Throughout the year we have also been continuing our dialogue with Treasury on the maintenance of audit quality in Australia.

‘the Institute...looks forward to working with the government to consider the recommendations for a robust regulatory framework.’

Lee White FCA, Executive General Manager Members

Global audit regulatory alignment
The Institute is part of a robust audit regulatory regime in Australia, comparing favourably with international best-practice. The Institute takes an active role in consultation processes to continue to develop a high quality, effective and efficient audit regulatory framework in Australia.

We are also firmly committed to promoting dialogue with regulators internationally as well as in Australia. With Europe’s audit profession under the spotlight, the Institute has been influential in two major international reviews. The first was conducted by the UK House of Lords and the Institute accepted their invitation to give evidence to the inquiry. Owing to our global experiences and international presence, we were the only non-UK group to give evidence. We also responded to the European Commission’s Green Paper focussing on the audit function and the role of the profession in financial stability, participating in a follow-up roundtable in Brussels.

Some of the issues raised during these reviews have already been addressed in two of the Institute’s leadership papers, *The benefit of audit: A guide to audit quality and Early warning systems: can more be done to avert economic and financial crises?*
Quality Review Committee

Dr Max Bessell FCA (Chair)
Max currently works at the University of Adelaide as an Associate Dean (International), where he also teaches and researches in accounting. He has other substantial university experience with respect to quality reviews, degree developments, strategic initiatives and academic management. Prior to joining the university sector he had over 18 years of consulting in accounting and legal practices. He joined the committee in 2003 and was appointed Chair in June 2007.

Bill Hassell
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.

Nicholas (Nick) Hullah FCA
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.

Nancy Milne
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 is a non executive director of a number of companies and serves on a number of audit and risk and compliance committees and was chair of Zurich Financial Services Australia until June 2008.

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.

Andrew Rigele CA
Andrew joined the committee in February 2009 and 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.

Lynn Ralph
Lynn joined the committee in November 2010. She is a principal of the corporate governance advisory firm, Cameron Ralph, and brings 15 years of fund management experience and 40 cumulative years of board experience to the committee. A former Deputy Chairman of ASIC, Lynn is Commissioner, Private Health Insurance Administration Council, and a non-executive director of a number of companies.
Appendices

1. Co-regulatory environment

The following diagram illustrates the co-regulatory environment regulating the work of Chartered Accountants in Australia.

- **International Federation of Accountants**
  - Obliges member bodies to conduct a mandatory Quality Review Program.

- **The Institute of Chartered Accountants in Australia**
  - Quality reviews consider the review work conducted by other bodies, provided there is sufficient documentation to rely on.

- **Financial Reporting Council**
  - Responsibility for monitoring the effectiveness of auditor independence requirements in Australia. The FRC has a memorandum of understanding with the Institute.

- **Australian Taxation Office**
  - Conducts compliance reviews of SMSF approved auditors as part of its compliance program in relation to Australia’s tax and superannuation laws.

- **Australian Securities and Investments Commission**
  - 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.

- **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.
### 2. Drivers of quality

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

<table>
<thead>
<tr>
<th>The culture within the firm</th>
<th>The skills and personal qualities of partners and staff</th>
<th>The effectiveness of the firm’s process</th>
<th>Factors outside the control of the firm</th>
<th>The reliability and usefulness of reporting</th>
</tr>
</thead>
</table>
| 1. Governance and structure of firm, including the involvement of independent non-executives | 1. Recruitment  
   - Technical skills and knowledge  
   - Leadership skills  
   - Personal skills and attributes  
   - Communication skills  
   - Team skills  
   - Motivation | 1. Involvement of partners (including engagement quality control reviewer (EQCR) and managers in planning process  
   2. Involvement of partners (including EQCR) and managers in review process  
   3. Consultation to reach appropriate conclusions  
   4. Resolution process (where a disagreement arises)  
   5. Identification of fraud  
   - Policies and procedures to detect fraud  
   - Number of frauds discovered? | 1. Quality of graduates to recruit  
   2. Skills shortage  
   3. Limitation of liability  
   4. Effective reporting framework  
   5. External factors which may impact on the ‘viability’ of the client (for example, global financial crisis)  
   6. Quality of audit committee or others charged with governance at clients. |
| 2. Strategy | 2. Assignment of staff to engagement teams  
   - Competence  
   - Engagement size and complexity  
   - Industry knowledge  
   - On-the-job training  
   - Need for specialists | 6. Internal review processes and external reviews  
   - Findings and results, systemic risks  
   - Remedial actions  
   - Skills and knowledge of reviewers  
   - Costs of internal review process | 2. PI claims/litigation costs  
   3. Communication with clients/stakeholders  
   4. Any restatements of financial statements?  
   5. Payments of penalties on behalf of clients. |
| 3. Tone at the top | 3. Performance management  
   - Technical excellence  
   - Values  
   - Knowledge of policies and procedures  
   - Demonstrating compliance  
   - Contribution within the firm  
   - Reward and remuneration  
   - Recognition of quality and risk indicators | 7. Clients  
   - Impact of reporting deadlines  
   - Communication  
   - Client feedback | 7. Clients  
   - Impact of reporting deadlines  
   - Communication  
   - Client feedback |
| 4. Risk management  
   - Reputational risk  
   - Behaviours which may result in a risk(s) which may impair or threaten to impair quality | 4. Career development/mentoring | 8. Monitoring complaints | 8. Monitoring complaints |
| 5. Values | 5. Training  
   - Cost of training  
   - Training costs per staff  
   - Training hours per staff | 9. Professional Indemnity (PI) claims/litigation costs | 9. Professional Indemnity (PI) claims/litigation costs |
| 8. Client acceptance and retention | | | | |
| 9. Whistleblowing policies and procedures | | | | |
| 10. Reporting  
   - Publish audited financial statements  
   - Internal reporting  
   - Governance reporting. | | | | |
3. Clarity suite of auditing standards: guidance and tools for members

The guidance and tools can be accessed by members through the Institute website charteredaccountants.com.au/audit.

<table>
<thead>
<tr>
<th>Australian Audit Manual and Toolkit: Clarity version: an up-to-date guide to assist practitioners, incorporating the requirements of the ASAs in Clarity format</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clarity project website resources: articles and a series of Q&amp;As</td>
</tr>
<tr>
<td>Mandatory Requirements of Clarity Auditing Standards Checklist: a tool to assist with compliance with Clarity auditing standards</td>
</tr>
<tr>
<td>Audit and Assurance Training and Development: a range of seminars, workshops and products including the LiveOne online series</td>
</tr>
<tr>
<td>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</td>
</tr>
<tr>
<td>Institute’s audit enquiry service: free service discusses audit issues with members to help them access technical resources and guidance (02 9290 5702)</td>
</tr>
<tr>
<td>Members’ Handbook: containing regulations and standards that members must abide by in their work</td>
</tr>
<tr>
<td>Framework for managing audit quality sustainability: a concise guide to the components needed to manage a sustainable audit process.</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.

<table>
<thead>
<tr>
<th>Standard</th>
<th>Description</th>
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<tbody>
<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>
<tr>
<td>ASA 500: Audit Evidence</td>
<td>Requires the auditor to obtain sufficient appropriate audit evidence on which to base the opinion.</td>
</tr>
<tr>
<td>ASA 210: 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.</td>
</tr>
<tr>
<td>ASA 220: Quality Control for Audits of 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>
</tbody>
</table>
| ASA 240: The Auditor’s Responsibility to Consider 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. |
| 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: Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement | 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 components;  
> Requires the auditor to assess the risks of material misstatements 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. |
<p>| ASA 520: Analytical Procedures | Requires analytical procedures to be applied to obtain an understanding of the entity and its environment: at the planning stage of the audit and prior to forming an opinion on the financial report. |</p>
<table>
<thead>
<tr>
<th>Standard</th>
<th>Description</th>
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<tbody>
<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>
</tr>
<tr>
<td>ASA 570: Going Concern</td>
<td>Requires the auditor to evaluate management’s assessment of the entity’s ability to continue as a going concern.</td>
</tr>
<tr>
<td>ASA 580: Management Representations</td>
<td>Requires the auditor to endeavour to obtain written representations from management on matters material to the financial report, when other sufficient appropriate audit evidence does not exist.</td>
</tr>
<tr>
<td>ASQC 1: Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements (applies from 1 January 2010)</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>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>
</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 AASB accounting standards as appropriate.</td>
</tr>
<tr>
<td>APES 220: Taxation Services (applies to engagements commencing on or after 1 July 2008)</td>
<td>Requires members to provide clients with a statement in writing that the client is responsible for the accuracy and completeness of the information they provide. This statement can be provided in a number of ways such as a letter, standard handout, brochure or electronic communication.</td>
</tr>
<tr>
<td>APES 305: Terms of Engagement (applies to engagements commencing on or after 1 July 2008)</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 scheme to advise their clients that the member’s liability may be limited.</td>
</tr>
<tr>
<td>APES 315: Compilation of Financial Information (applies to engagements commencing on or after 1 January 2009)</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 related. 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>
</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>
</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.</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>AASB</td>
<td>Australian Accounting Standards Board</td>
<td>aasb.gov.au</td>
</tr>
<tr>
<td>AFSL</td>
<td>Australian Financial Services Licence</td>
<td></td>
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<tr>
<td>APESB</td>
<td>Accounting Professional &amp; Ethical Standards Board</td>
<td>apesb.org.au</td>
</tr>
<tr>
<td>AQRBo</td>
<td>Audit Quality Review Board (which completed its three year charter in February 2009)</td>
<td></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>FRC</td>
<td>Financial Reporting Council</td>
<td>frc.gov.au</td>
</tr>
<tr>
<td>GAA</td>
<td>Global Accounting Alliance</td>
<td>globalaccountingalliance.com</td>
</tr>
<tr>
<td>IAASB</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>IPA</td>
<td>Insolvency Practitioners Association of Australia</td>
<td>ipaa.com.au</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>The Committee</td>
<td>Quality Review Committee</td>
<td></td>
</tr>
<tr>
<td>The Institute</td>
<td>The Institute of Chartered Accountants in 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>
</tr>
</tbody>
</table>
Contact details

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