

13 May 2016

Ms. Kathleen Healy
Technical Director
International Auditing and Assurance Standards Board (IAASB)
International Federation of Accountants (IFAC)
529 Fifth Avenue, 6th Floor
New York, New York 10017 USA
By email: kathleenhealy@iaasb.org

Dear Ms. Healy,

RE: IAASB's Invitation to Comment *Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits*

Accounting Professional & Ethical Standards Board Limited (APESB) welcomes the opportunity to make a submission on the IAASB's Invitation to Comment *Enhancing Audit Quality in the Public Interest: A Focus on Professional Skepticism, Quality Control and Group Audits* (Audit Quality ITC).

APESB is governed by an independent board of directors whose primary objective is to develop and issue, in the public interest, high-quality professional and ethical pronouncements. These pronouncements apply to the membership of the three major Australian professional accounting bodies (CPA Australia, Chartered Accountants Australia and New Zealand and the Institute of Public Accountants).

Introductory comments

In Australia, standards and guidance relating to auditing and assurance are the responsibility of the Auditing and Assurance Standards Board (AUASB). APESB issues APES 110 *Code of Ethics for Professional Accountants* which includes the Australian auditor independence requirements, as well as a range of professional & ethical standards that address non-assurance services. APESB also issues two standards that relate to firm-wide quality control and risk management: [APES 320 Quality Control for Firms](#) (consistent with ISQC 1 *Quality Control for Firms that Performs Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*) and [APES 325 Risk Management for Firms](#). As such APESB has only considered the quality control section of the Audit Quality ITC in formulating this submission.

APESB is supportive of the overall aim in the ITC to enhance audit quality. We commend the IAASB on its consideration of the various factors that may impact audit quality and believe that some of the actions identified, such as implementing a quality management approach (QMA), could positively impact audit quality.

However, APESB is concerned that the majority of the proposed actions in the Audit Quality ITC are based on stakeholders' perceptions regarding audit quality rather than fact-based research. Research that provides empirical evidence on links between audit quality and deficiencies in the current standards should be the basis for any future action considered by the IAASB. Without conducting fact-based research, APESB believes the key to improving audit quality is educating professional accountants of their existing responsibilities and promoting a change in the behaviours of all participants in the audit process.

In developing APESB's response to the Audit Quality ITC, we have taken into consideration Australian stakeholders' feedback from two roundtable events conducted by APESB in Melbourne and Sydney in March 2016. APESB has simplified questions from the Audit Quality ITC to specifically target the key proposals relevant to APESB's mandate. We have used those questions in formulating our response to you. The questions and associated responses are set out in Appendix A.

Subject to APESB's key recommendations noted below, APESB supports the IAASB's focus on enhancing audit quality.

Recommendations

APESB's key recommendations for IAASB's consideration are:

- Conduct research and gather empirical evidence on the causes of deficiencies in audit quality;
- Implement a QMA as proposed in the Audit Quality ITC, subject to the consideration of the professional services it would apply to and the appropriate body to mandate the requirements;
- Initiate a program to promote the effective implementation of existing audit and assurance pronouncements;
- The IAASB Technical Staff to consider developing summaries of key requirements for Engagement Partners and Engagement Quality Control (EQC) reviewers to assist Small to Medium Practices (SMPs) in understanding their obligations and responsibilities; and
- Create a requirement for an EQC Review to be conducted on the audits of all public interest entities.

Concluding comments

We trust you find these comments useful in your final deliberations. Should you require any additional information, please contact APESB's Technical Director, Channa Wijesinghe at channa.wijesinghe@apesb.org.au.

Yours sincerely



The Hon. Nicola Roxon
Chairman

Appendix A

APESB's Comments

Within the Audit Quality ITC, APESB has only considered the topic of Quality Control as it is the only topic within the Audit Quality ITC that falls within APESB's mandate in Australia.

APESB's responses to the specific matters raised by the IAASB in the Audit Quality ITC have been noted using specific questions posed to stakeholders at APESB roundtable events in Australia. The relevant Audit Quality ITC question numbers are noted in the header for each section. APESB has not responded to all questions in the Audit Quality ITC. The responses to the select questions are as follows:

Quality Control – specific matters

Quality Management Approach (Questions QC1 and QC5)

1. Is the proposed Quality Management Approach (QMA) a viable suggestion? How would you see a QMA fitting into the Australian quality control and risk management framework for Firms?

In Australia, APESB has issued [APES 325 Risk Management for Firms](#) (originally issued 2011 and revised 2015) which requires a Firm to establish and maintain a Risk Management Framework. The Framework is used to identify, assess and manage key risks, and therefore Australian firms should already be considering audit quality risks within this Framework. As a result, the introduction of a QMA should not significantly impact Australian firms.

APESB agrees with the proposed action of introducing a principles-based QMA into ISQC 1. By using risk as the determinant of the quality control measures to implement, this approach will ensure firms implement tailored quality control systems that are scalable to their operations, activities and services they provide. It will also provide a mechanism to capture and address the results of internal and external firm inspections.

2. What issues could arise if the QMA was applied to assurance and non-assurance engagements?

The framework of the proposed QMA could be applied to both assurance and non-assurance engagements. Many large firms use similar quality control systems for different aspects of their practice, and a QMA would allow consistent application and approach by the firm and its leaders in relation to engagement quality regardless of the professional service. However, a formal assessment or consultation with providers of non-assurance services would need to be conducted to determine if there are issues with implementing a QMA across these services.

Consideration, as to which standard-setting body should mandate a QMA, is also required. If a QMA is to be applied to non-assurance engagements, would the IAASB be the appropriate body to issue such a standard?

Engagement Partner Roles and Responsibilities (Question QC2)

3. What would help with multi-location audits where partners are located separately from the majority of the audit team and therefore the audit work – specific requirements, or additional guidance and examples?

Stakeholders at our roundtable events believed that the roles and responsibilities of engagement partners are clear across the International Standards on Auditing (ISAs). In particular, ISA 600 *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)* (2009) adequately sets out the requirements of engagement partners for multi-location audits. Additional guidance relating to the logistics of multi-location audits, in particular on establishing appropriate communication methods between locations, could be useful. However, stakeholders firmly believed that no further requirements are needed. Rather there should be a focus on the promotion and education of the implementation of existing requirements.

APESB believe that a number of large firms have internal processes that clearly set out the roles and responsibilities of engagement partners. However, SMPs may benefit from being provided with a summary of the roles and responsibilities relating to engagement partners across the ISAs. This summary could be presented as an Appendix to a Standard or released as an IAASB Staff Audit Practice Alert.

The Firms' Role in Supporting Quality (Question QC4)

4. Is there a need for guidance on quality control specifically for network firms? If yes, what would this look like? Are there examples of where quality control has been an issue across firms?

The existing guidance on network firms within ISA 600 is comprehensive, and APESB believes that no further guidance is required. The issues that stakeholders at our roundtables raised related to control and at times the limited ability to influence network firms. It is unlikely that additional guidance would be of practical assistance to firms when addressing these issues, especially when the structure and arrangements for network firms vary significantly.

Audit Delivery Models (ADMs) (defined in paragraph 105)

In Australia, APESB has issued [GN 30 Outsourced Services](#) (originally issued 2013 and revised 2015) which provides guidance on the professional and ethical obligations when dealing with outsourced services that are not covered by Auditing Standard ASA 600 *Special Considerations – Audits of a Group Financial Report* (2009). ASA 600 is the Australian equivalent of ISA 600.

It is considered best practice, in GN 30, to inform and seek consent from the client before outsourced services are to be used. The GN also considers the factors that a firm or professional accountant should consider before using outsourced services, including assessing the competency of the outsourced personnel and the security measures around documentation and information.

The content in GN 30 could assist the IAASB in developing application guidance in relation to ADMs.

Governance of the Firm, including Leadership Responsibilities for Quality (Question QC5)

No specific comments on this section, but please refer to the response above for QC1 re QMAs, which addresses aspects of QC5.

EQC Reviews and EQC Reviewers (Question QC6)

5. Should there be a separate standard relating to EQC Reviews, and if yes, what should be covered in this standard?

APESB believes that there is no need for a separate standard on EQC reviews. In line with our response to question 7 below, large firms have developed internal processes relating to EQC Reviews. However, SMPs may benefit from being provided with a compiled summary of the requirements relating to EQC reviews and EQC reviewers. This could be in the form of either an Appendix to ISQC 1 or an IAASB Staff Audit Practice Alert. Such a document may be used as a way of promoting the role of the EQC reviewer and the importance of being involved at the right time or to the right extent when conducting an EQC review.

The IAASB is considering the option of including requirements on cooling off periods for EQC reviewers previously involved in the audit prior to being appointed as the EQC reviewer. However, we are aware that the International Ethics Standards Board for Accountants (IESBA) will set out requirements on cooling off periods for EQC Reviewers as part of their Long Association Project. Given the history of collaboration between the IAASB and the IESBA, APESB believes that consistent requirements on cooling off periods for EQC Reviewers should be developed and implemented by both standard setters.

6. Should EQC reviews be mandatory for audits of public interest entities and what public interest entities should be captured by this requirement?

APESB agrees that EQC reviews could be made mandatory for Public Interest Entities (PIEs). The requirements under ISQC 1 require firms to establish criteria to determine when an EQC review should be performed for entities other than listed entities. We believe the criteria applied by a number of the large firms in Australia already capture PIEs. The IAASB could include a specific requirement so that EQC reviews are consistently performed on audits of all PIEs.

In defining PIEs in the ISAs, we are confident that the IAASB will ensure the definition is consistent with definitions set out by other international standard setters such as the IESBA.

Monitoring and Remediation (Question QC7)

7. What are the current processes used in practice in respect of quality control deficiencies in firms? Is there a need for a formal policy and procedure on how firms deal with audit deficiencies?

Stakeholders at the APESB roundtable events believed that the processes used to deal with quality control deficiencies vary significantly. Large firms are more likely to have sophisticated systems in place while SMPs may rely on the Professional Bodies' Quality Control Reviews to identify and address any deficiencies. The existing requirements for monitoring in ISQC 1 cover reviews and any deficiencies noted from such a review.

However, additional application guidance could be provided to clarify that this relates to both external and internal reviews.

As noted in the Audit Quality ITC, the implementation of a QMA would require firms to address any quality risks identified through reviews (whether internal or external) and will therefore also address deficiencies noted.

Engagement Partner Performance and Rewards Systems (Question QC8)

During the APESB roundtable events, a stakeholder commented that as a profession we don't focus on the consequences of bad quality. To counteract this, the stakeholder believes that firms should have appropriate Human Resources (HR) policies that recognise and reward good quality.

The IESBA Code specifies that an Audit Partner cannot be remunerated based on selling other services to an audit client. The IAASB could encourage the IESBA to consider whether using audit quality as a factor to determine remuneration is appropriate. However, we do not think that the ISAs should mandate specific requirements relating to a firm's remuneration systems.

The Audit Quality ITC in paragraph 170 proposes that the ISAs could include new application material around threats and safeguards relating to the provision of non-assurance services. APESB believes that as these matters are addressed in IESBA's Code and that they should not be duplicated in the ISAs. It would be preferable for IAASB to refer to the relevant sections in the IESBA Code to ensure requirements and associated application guidance are not read out of context or misinterpreted.

Quality Control – general matters

Consideration of SMPs (question QC13)

8. How can these requirements be made scalable for SMPs?

A stakeholder at our roundtable events commented that services are provided according to engagement risk so there should be no need to change the baseline requirements for SMPs. While we agree with this in principle, APESB is of the view that the following measures could assist SMPs in relation to quality control:

- Implementation of a QMA which allows quality control processes to be tailored to the requirements of a firm; and
- Providing resources, whether as an appendix to a Standard or an IAASB Staff Audit Practice Alert, that clearly outlines the existing roles and responsibilities of engagement partners and EQC reviewers.