



**Australian Government**  
**Auditing and Assurance Standards Board**

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31 January 2014

Parliamentary Joint Committee on Corporations and Financial Services  
AUSTRALIAN SENATE

**2012-13 AUASB Annual Report**

I am pleased to respond to your email correspondence dated 16 December 2013 regarding the Australian Auditing Standards (the *Standards*).

The AUASB believes that relevant and reliable auditor reports are a function of both high quality standards and effective implementation and use of the standards by auditors, overseen by regulator inspections and reinforced by audit committees. In its ongoing consideration of the achievements of the clarity versions of the *Standards*, the AUASB has adopted a number of direct and indirect methods to provide a basis for conclusion. The approach taken is preferred to a point-in-time assessment exercise as it provides a far broader, and therefore valuable, basis to gauge the results of implementing the *Standards*. This broader approach facilitates a practical and efficient methodology that utilises the AUASB's day to day activities and is favoured over a more costly, and time-consuming, single assessment exercise. This approach also considers both the standards themselves and their implementation.

I take this opportunity to emphasise that the *Standards* have been adopted in Australia as an ongoing and integral component to the Australian Government's initiative to continue improving the efficiency and effectiveness of the Australian capital markets. Overall, the *Standards* seek to contribute to improving the quality of audits generally and it is in this broad context that I respond to the Parliamentary Joint Committee on Corporations and Financial Services (the PJC) request referring to the *Standards* "promoting relevant and reliable auditor reports".

The International Auditing and Assurance Standards Board (IAASB) has undertaken a post-implementation review of the international standards (ISAs) which the AUASB has adopted. The result of this exercise will be to make amendments to certain standards based on feedback obtained internationally. Any such changes will be adopted in the Australian standards unless, in the unlikely event, there are compelling reasons to modify or omit the amendments made to the ISAs.

In view of the above, we have not, in Australia, undertaken a formal assessment, per se, of the achievements of the *Standards*. Nonetheless, please refer to the attachment to this letter, and pages 25 to 29 of the *2012-13 AUASB Annual Report* that detail the AUASB's targets and outputs, in relation to the development and maintenance of high quality auditing standards. From our considerations and the information contained in the *AUASB Annual Report*, I conclude that the *Standards* contribute positively to promoting relevant and reliable auditor reports.

This letter and its attachment are intended to provide the PJC with the AUASB's consideration of the *Standards*. As a matter of course, the AUASB continues to monitor and consider the achievements of the *Standards*.

It is also worth noting that the Financial Reporting Council plays an important role in promoting audit quality through its oversight of the AUASB and through the work of its Audit Quality Committee.

I trust this communication achieves satisfactory reporting for the purposes of the PJC. Should you or the PJC require further information, please do not hesitate to contact me on

Yours sincerely,

Merran Kelsall  
*AUASB Chairman and CEO*

Attachment:

## Attachment

### Introduction

This Attachment to the AUASB letter dated 31 January 2014, is provided to the Parliamentary Joint Committee on Corporations and Financial Services (the PJC) in response to the PJC's request for an assessment of the achievements of the clarity versions of the Australian Auditing Standards (the *Standards*) in promoting relevant and reliable auditor's reports.

The *Standards* were issued by the AUASB in October 2009 and became operative for financial reporting periods commencing on or after 1 January 2010. For the majority of companies reporting in Australia, the second round of audits under the *Standards*, would have been completed in the latter part of 2013.

### Conclusions

Based on the processes described below, the conclusions reached are that the *Standards*:

- (a) Have been properly incorporated into legislation in accordance with the AUASB's legislative mandates under:
  - (i) Section 227B of the Australian Securities and Investments Commission Act 2001; and
  - (ii) The *Strategic Direction* given to the AUASB by the Financial Reporting Council (FRC).
- (b) As required by the AUASB mandates, conform to the *International Standards on Auditing* (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB).  
[Of particular relevance, conformity applies to auditor reporting requirements.]
- (c) Are used by auditors and other assurance practitioners, where required.
- (d) Contribute positively to promoting relevant and reliable auditor reports as well as to the quality of audit generally.

In reaching the above conclusions, the AUASB has considered various direct and indirect activities that were, or continue to be, initiated and conducted by the AUASB or other relevant parties. It is the accumulated evidence from these activities that facilitates a consideration of the *Standards*. In particular, the AUASB relies on its numerous and varied interactions with stakeholders and other relevant parties as the most important avenue for the identification and understanding of issues and comment in relation to the *Standards*.

The above conclusions are reached on the basis that the AUASB is convinced that any significant matters relating to the *Standards* have been, and will continue to be, brought to its attention. As there are no relevant outstanding issues at the date of this letter, the AUASB is confident of the positive contribution made by the *Standards* to the Australian capital markets.

An overview of the various activities and their outcomes follows.

### Activities and Outcomes

#### *The International Auditing and Assurance Standards Board*

1. The IAASB is an independent standard-setting board of the International Federation of Accountants (IFAC), an organisation with global membership. The IAASB is responsible for the development

and issuance of the International Standards on Auditing (ISAs) which have been adopted by over 100 member countries. Under its mandate, the AUASB is required to issue auditing standards that conform to the ISAs. Accordingly, the *Standards* are world practice.

2. The development of an ISA is a comprehensive process involving the input of a wide variety of stakeholders. The public exposure of a draft standard is open for comment world-wide and attracts very detailed contributions which are *all* thoroughly assessed by the IAASB. This rigorous process facilitates maximum opportunity for the development of high quality standards.
3. Using the relevant ISA, the AUASB makes any necessary changes, principally to incorporate relevant Australian legislative requirements, and then issues the proposed Australian standard for public comment. To date, there have been little or no significant challenges relating to the substance of the *Standards* from Australian constituents.
4. The Chairman of the AUASB is also a member of the IAASB and therefore has first-hand access to the information, issues and deliberations of the IAASB. The Chairman was also a member of the ISA Implementation Monitoring Task Force and discussed in detail the results of surveys conducted to monitor the implementation of the clarity versions of the ISAs. This direct access provides a timely alert to any issues that need to be considered by the AUASB.

#### *National Standard Setters (NSS)*

5. Annually, the AUASB Chairman and the Executive Director attend the NSS meeting which is convened by the IAASB and attended by auditing standards setters from around the world. A significant portion of this conference is dedicated to identifying, and planning responses to, issues raised by attendees. Any significant matters arising at the NSS conference that may affect the Australian standards are addressed subsequently by the AUASB.

#### *Treasury*

6. The Chairman of the AUASB has regular meetings with Treasury officials. This regular interaction facilitates the raising of any issues relating to the *Standards* that requires immediate AUASB attention.

#### *The AUASB*

7. The AUASB comprises 13 members drawn from the large and mid-sized accounting firms, public sector auditors, academia, company directors and other relevant constituent groups. The Chairman of the New Zealand Auditing and Assurance Standards Board (NZAuASB) is also a member of the AUASB.
8. Due to the Board members' positions in their respective organisations and their associated wide range of contacts, including those in New Zealand, the AUASB is well placed to receive comments and suggestions regarding the *Standards*. Any concerns about the *Standards* are able to be promptly communicated to the Board for its deliberation.
9. The IAASB initiated a formal project, the ISA Implementation Monitoring Task Force. In collaboration with the IAASB, the AUASB conducted 2 separate surveys designed to contribute to the IAASB's programme to monitor the implementation of the clarity versions of the ISAs. One survey sought the views of small to mid-sized audit practices and the other survey sought the views of audit committee members. The results of the surveys were forwarded to the IAASB for collation with survey results from other countries. The IAASB published a formal report on the results of the world wide surveys and is currently consulting its global constituents on its strategy for 2015-19 and detailed work program for 2015-16 which incorporates proposed amendments to some Standards arising from the ISA Implementation Monitoring project.

10. In respect of the *Standards* themselves, the results of the 2 surveys conducted in Australia indicated that stakeholders' suggestions referred predominantly to improvements in guidance material only. Such guidance material was requested to assist, or clarify, the application of the requirements of the *Standards*. The fundamental requirements of the *Standards* were not raised by stakeholders as the cause of issues; or challenged as to their appropriateness.
11. An important message received from respondents to the surveys, as well as from other sources, was that the changeover from the pre-2006 professional auditing standards to the first legally enforceable auditing standards, issued in 2006, was a very significant transition. On the other hand, the introduction of the "clarity" standards was, to a large extent, incremental and required significantly less practical adjustment by auditors.
12. The AUASB Chairman and the Executive Director regularly meet with practitioners for informal discussion about the practical implementation of the *Standards*.
13. All proposed *Standards* and amendments to *Standards* are subject to public exposure. The exposure process is open to anyone and interested constituents provide valuable input to the standard-setting exercise. Unless requested otherwise by the writer, all exposure draft submissions to the AUASB are published on the AUASB website.
14. As an important part of public consultation, normal practice is for the AUASB to conduct "round table" discussions. The open dialogue style of these meetings facilitates the free exchange of ideas and issues relating to the development of the particular standard(s). A recent example provided extremely helpful insights to inform the AUASB's submission to the IAASB on its proposed enhancements to auditor reporting.
15. The AUASB conducts an annual consultative meeting where invited guests from a wide range of stakeholder groups, are informed of the AUASB's achievements and plans and are encouraged to raise issues with the AUASB.
16. AUASB meetings, approximately 7 per annum, are open to the public and board papers, minutes and highlights are published on the AUASB website.
17. AUASB staff regularly provide information about the *Standards* in response to telephone and email queries from stakeholders.
18. AUASB staff regularly write technical articles which are published in professional journals.
19. In addition to pronouncements, the AUASB occasionally publishes technical bulletins and publishes jointly with other organizations such as the Bureau of Meteorology and the Australian Institute of Company Directors.
20. As a broad communiqué, the AUASB publishes a quarterly newsletter which updates stakeholders on current projects and issues.
21. To introduce the *Standards*, the AUASB staff, in co-operation with the Professional Accounting Bodies, provided comprehensive training sessions in all states of Australia. The sessions were interactive and provided a forum for open discussion on any aspect of the *Standards*.
22. On a number of occasions, AUASB staff work with other Government agencies on projects of mutual significance related to the *Standards*, in particular relating to auditor reporting.
23. All of the above AUASB activities provide avenues for stakeholders to communicate issues relating to the *Standards*. All relevant issues are brought to the AUASB for its consideration. After careful consideration, any necessary changes to the *Standards*—such as the incorporation of updates made to the ISA equivalent standard or providing additional guidance material that clarifies an audit

procedure—are made. To effect changes, the AUASB issues an “amending standard(s)” which is also subject to public exposure.

#### *The Financial Reporting Council (FRC)*

24. The FRC strategic policy advice role in relation to audit quality and associated reporting requirements commenced on 27 June 2012 following the passage of the *Corporations Legislation Amendment (Audit Enhancement) Act 2012*. The report for the year ended 30 June 2013 was the first opportunity for the FRC to provide strategic advice on audit quality.
25. “The FRC is very pleased with the finalised plans and believes they will contribute to ensuring that Australia *continues* (author’s emphasis) to have an appropriate, robust and dynamic financial reporting framework.”  
  
[Extract from the FRC Chairman’s Report contained in the FRC Annual Report 2012-13]
26. In March 2010, Treasury released *Audit Quality in Australia: A Strategic Review* for consultation to identify drivers of audit quality, and to assess whether any measures should be taken to address any threats to these drivers. The review did not recommend changes to the *Standards*.
27. The FRC Audit Quality Committee, when reporting on audit quality, did not include any recommendations for changes to the *Standards*.
28. Other than the initial strategic direction (issued in 2005), the FRC has not issued any determination concerning the broad strategic direction of the AUASB.
29. The Chairman of the AUASB is also a member of the FRC and accordingly is privy to any matters relating to the *Standards* that requires the AUASB’s attention.

#### *Australian Securities and Investments Commission (ASIC)*

30. The AUASB Chairman and Executive Director have regular meetings with senior representatives of ASIC and AUASB staff communicate with ASIC staff as the need arises. ASIC is a significant contributor to regulatory input on the ISA Implementation Monitoring Project through its membership of the International Organization of Securities Commissions (IOSCO). From time to time, ASIC has commented on possible improvements to the international standards (ISAs) and on certain ISAs adopted by the AUASB.
31. ASIC contributes positively to the standard-setting process by submitting (written) comments in response to AUASB exposure drafts. Accordingly, ASIC’s views are incorporated into the standard-setting process *prior* to the finalisation and issuance of the *Standards*.
32. ASIC conducts ongoing inspection programmes that are aimed at, among other objectives, assessing auditors’ compliance with the *Standards*. Annually, ASIC issues a report of the results of their inspections. The ASIC reports have, to date, not referred to any deficiency in the *Standards*.

#### *Australian Prudential Regulation Authority (APRA)*

33. The Executive Director and staff have regular meetings with senior representatives of APRA. AUASB staff communicate with APRA staff as the need arises and work with them on joint projects from time to time.

#### *Australian Professional and Ethical Standards Board (APESB)*

34. The Executive Director and staff have regular meetings with senior representatives of APESB. The AUASB has received no recommendations from APESB to amend the *Standards*.

*Australian Professional Accounting Bodies*

35. The AUASB Chairman and Executive Director have regular meetings with senior representatives of the 3 Australian Professional Accounting Bodies—The Institute of Chartered Accountants in Australia (ICAA), CPA Australia (CPAA) and the Institute of Public Accountants (IPA). Although the Accounting Bodies have commented on possible improvements to the *Standards*, the AUASB has received no recommendations for substantive amendments to the *Standards*.
36. All 3 Australian Professional Accounting Bodies conduct inspection programmes of their members in public practice. The AUASB has received no recommendations from the Accounting Bodies for changes to the *Standards* as a result of the inspection programmes.