

IAASB

International Auditing  
and Assurance  
Standards Board

IESBA

International  
Ethics Standards  
Board for Accountants®

October 22, 2019

Parliamentary Joint Committee on Corporations and Financial Services  
PO Box 6100  
Parliament House  
Canberra ACT 2600  
Australia

Via online submission: [https://www.aph.gov.au/Parliamentary\\_Business/Committees/OnlineSubmission](https://www.aph.gov.au/Parliamentary_Business/Committees/OnlineSubmission)

### **Re: Inquiry into Regulation of Auditing**

Dear Parliamentary Joint Committee,

As the Chairs of the two international standard-setting boards for audit, assurance and related services (the International Auditing and Assurance Standards Board, [IAASB](#)), and ethics for professional accountants (International Ethics Standards Board for Accountants, [IESBA](#)), we are taking a keen interest in your inquiry and in the conclusions you will arrive at in due course. Our standards form the basis for both audit and ethical standards for accountants in Australia, and we work closely with the Auditing and Assurance Standards Board (AUASB) and the Accounting Professional & Ethical Standards Board (APESB) throughout the development and promulgation of our respective standards.

Your Inquiry is indicative of the globally-relevant questions about how best to enhance the effectiveness, quality and independence of audits. We believe that setting standards at the international level is the most effective way to respond to the relentless globalization of business and to avoid the economic costs and regulatory arbitrage that come with fragmentation in standards. Australia has long been a proponent of global standards, and we hope that continues.

This letter highlights how the IAASB and IESBA take action in the public interest to support public trust in audits of financial statements and other assurance engagements more broadly, and to protect auditor independence as a linchpin of the external audit. We recognize increasing public scrutiny over matters related to audit and other financial reporting issues, and both boards stand ready to respond to relevant issues that affect our global standards in a timely manner.

#### **Developing Global Standards in the Public Interest**

As global standard-setters, we respond to the needs of a wide range of stakeholders around the world. Our standards are highly recognized and accepted around the world – there are close to 130 jurisdictions that are using or committed to using our standards. We also note the largest 32 international networks of firms adopt the International Standards on Auditing (ISAs) and the International Code of Ethics for transnational audits. In addition, through the International Organization of Supreme Audit Institutions (INTOSAI), the ISAs have been adopted for audits in the public sector globally.

Our two boards have separate, but related remits covering audit standards practiced by auditors (IAASB) and ethics standards practiced by all professional accountants (IESBA). We both adhere to a rigorous due process in developing those standards, which requires us to consult extensively with stakeholders, and our deliberations are open and transparent.

Consistent with our due processes, IAASB and IESBA undertake extensive international outreach activities as an integral part of their strategies. Proactive engagement with key stakeholder groups is essential to promoting adoption and effective implementation of the boards' standards, and in understanding emerging issues or other developments that may affect the robustness or relevance of our standards.

We benefit in particular from the frequent dialogue with **regulators and audit inspection bodies as well as national standard-setters (NSS)**. Our regulatory interaction includes the International Organization of Securities Commissions (IOSCO), the International Forum of Independent Audit Regulators (IFIAR), and the Basel Committee on Banking Supervision. Australian bodies are well represented in those organizations. Our respective boards also collaborate with **NSS**, including those in Australia focused on both auditing and assurance (AUASB), and ethics (APESB), to optimize the quality and effectiveness of the boards' activities.

We draw our memberships from a wide range of jurisdictions and professional backgrounds, including individuals from the public sector, and have had the benefit of longstanding direct involvement of members from Australia on both boards. We maintain a strict balance between practitioners and non-practitioners (including public members) so that appropriate expertise and independent, diverse public interest perspectives are brought to bear in our deliberations (for example, presently seven of the eighteen members on the IAASB are in audit practice; the balance of eleven members coming from academia, the public sector, regulators, NSS and professional bodies). We the board chairs are non-practitioners and are entirely independent of the profession. Furthermore, the [Public Interest Oversight Board](#), a body comprised of individuals with considerable public sector experience and nominated by current public officials, oversees our boards. The PIOB provides oversight to the independent standard-setting boards and affirms that the standards we set are fully responsive to the public interest.

We also recognize that effective implementation of standards is an important complement to the setting of standards. To this end, an integral part of our strategies and work plans has been the development of implementation support tools and other resources. We collaborate closely with the [International Federation of Accountants](#) (IFAC). These resources are available on our websites.

Finally, we recognize the limits of our actions. The IAASB and IESBA are two players in the broader external reporting ecosystem through their respective standard-setting mandates. Building and sustaining public trust in external reporting and enhancing confidence in audit and assurance engagements require all relevant actors (including NSS, regulators, audit and other industry oversight bodies, preparers of information, business leaders, governance groups, audit firms, investors, and governments) to continue to play their respective roles. We also realize that the correct implementation and compliance with our standards is a continuous challenge requiring effort and diligence from accounting organizations, firms, practicing professionals and their overseers.

Below we describe how our independent boards are addressing many of the issues addressed by your inquiry.

### **IESBA: Enhancing the Role of Ethics and Strengthening Independence**

A fundamental premise of an audit is that those who perform it comply with relevant ethical requirements, including independence requirements. The ethical provisions promulgated by the IESBA, which are applied in parallel with the auditing and quality management standards promulgated by the IAASB, establish a robust, principles-based benchmark to safeguard against threats to auditor independence and compliance with the fundamental ethical principles. Such threats can be created by a variety of conflicts of interest. These may arise not only when firms provide non-assurance services (NAS) to audited entities, but also in situations involving financial interests in, or business, employment, family and personal relationships with, the audited entity, to name a few.

Compliance with those ethical provisions provides the basis for audit firms to assert to stakeholders that they have been independent when performing audit engagements. Accordingly, it is critical that those provisions are clear and capable of consistent application across all types of audit engagements globally. The IESBA strongly believes that its ethical provisions, including independence requirements, meet this test and is working to make them even more effective.

Ethical behavior is fundamental for the work of all professional accountants in their various roles. Professional accountants who are preparers of financial statements, members of management in the private or public sectors, members of audit committees, internal auditors and tax advisers, among others, all have to comply with fundamental ethical principles and apply the requirements of the International Code of Ethics in their daily practice. The quality of financial reporting and the overall ethical culture of organizations are contingent on this compliance.

**The IESBA has recently issued a revised and restructured [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) (the Code).** The restructuring of the Code led to the separation of requirements and guidance as well as the use of clearer, plain English language. These changes were driven in large part by regulatory concerns about the need for more consistent application of the Code and greater enforceability. Beyond the comprehensive rewriting of the Code, significant revisions have been made. These include strengthened provisions addressing long association of personnel with an audit client, non-assurance services provided to an audited entity, safeguards against threats to compliance with the fundamental ethical principles and independence requirements, pressure to breach those fundamental principles, responding to non-compliance with laws or regulations, inducements, conflicts of interest, and breaches of the Code.

The IESBA has an active work program aimed at enhancing ethical behavior in the accountancy world. We draw your attention to **recently completed and active IESBA projects** that may be of particular interest to your inquiry:

- Topic: [non-compliance with laws and regulations](#) (NOCLAR) (new provisions issued July 2016, now effective)

Result: a **framework** to guide both professional accountants in business and professional accountants in public practice in deciding how best to act in the public interest when they become aware of NOCLAR or suspected NOCLAR.

- Topic: [long association](#) of personnel with an audit client (revised independence standard issued January 2017, now effective)

Result: **strengthened partner rotation regime** for audits of public interest entities, including requirements for longer cooling-off periods for engagement partners and engagement quality reviewers, and further restrictions on permissible activities during the cooling-off period.

- Topic: [permissibility of NAS](#) provided by firms to audited entities

Objective: **strengthen the independence provisions** in the Code dealing with the permissibility of **NAS** to audited entities. Among other matters, the project is examining the **threats**, in particular the self-review threat, that are created by providing a NAS to an audited entity and whether such service should be prohibited, as well as whether “**materiality**” should be a factor in considering the permissibility of certain types of NAS.

- Topic: [fee-related matters](#) as they pertain to auditor independence

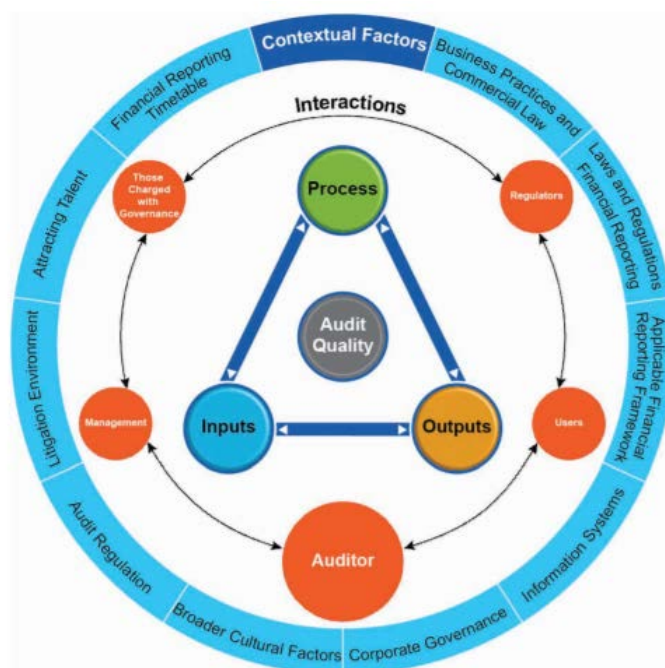
Objective: **strengthen the independence provisions** in the Code. This project is reviewing, among other matters, the **threats created by the level of audit fees** for individual audit engagements and the role of professional accountants in business (including those in a governance role) in approving the level of such fees; the issue of **fee dependency** at a firm, office and partner level for all audited entities; and the issue of **transparency** (to both those charged with governance and the public) of fees charged by a firm to an audited entity for both audit and services other than audit.

- Topic: [role and mindset](#) expected of professional accountants (including auditors)

Objective: strengthen the provisions in the Code to **reinforce the role, mindset and behavioral characteristics** expected of all professional accountants, and in particular, the expectation in this regard of professional accountants in business, who are the first line of defense against corporate malfeasance.

### IAASB: A Clear Focus on Audit Quality

To support high-quality audits and enhance user confidence in audit and assurance, the IAASB’s focus over the past five years has been to strengthen the fundamentals of our standards, underpinned by audit quality. The IAASB developed the [Framework for Audit Quality](#), which describes the input, process and output factors that contribute to audit quality at the engagement, audit firm and national levels (see illustration). The Framework emphasizes that standards alone are not sufficient to ultimately achieve audit quality, but that improving audit quality requires interaction between, and action by, all stakeholders in the financial reporting supply chain. An illustration of this can be found in the enhancements to auditor



reporting where the objective of better communication and improved transparency about key audit matters requires responses and feedback from users of financial statements, as well as other stakeholders such as management, those charged with governance and regulators.

To support our audit quality initiative during our current strategy period, 2015–2019, the IAASB has issued **thirteen new or revised auditing and assurance standards** covering a wide range of topics, including auditor reporting, accounting estimates, consideration of laws and regulations, disclosures and dealing with annual reports (from January 2015 to June 2019). Over the same period, the IAASB has also published approximately **fifty implementation and support resources** to assist our stakeholders better understand and implement our standards, and covering related topics such as technology and data analytics, extended external reporting (EER) assurance and professional skepticism.

The following **recently completed and active IAASB projects** may be of particular interest to your inquiry, since they form part of our major audit quality enhancements:

- Topic: [NOCLAR](#) (revised standard issued October 2016, effective for audits of financial statements for periods beginning on or after December 15, 2017)

Result: a revised standard regarding **the auditor's consideration of laws and regulations** in an audit of financial statements that is appropriately aligned and consistent with the Code, following IESBA's project to develop new standards for its Code regarding responding to NOCLAR.

- Topic: [audit of accounting estimates](#) (revised standard issued October 2018, effective for audits of financial statements for periods beginning on or after December 15, 2019)

Result: strengthened requirements and more detailed guidance on **all types of accounting estimates**, including intangible assets. Furthermore, the standard contains several key provisions that address the importance of the auditor's risk assessment and **the exercise of professional skepticism** in auditing accounting estimates.

- Topic: [identifying and assessing the risks of material misstatement](#) in an audit of financial statements (revised standard finalized, subject to PIOB approval in November 2019, and effective for audits of financial statements for periods beginning on or after December 15, 2021)

Result: more robust requirements and appropriately detailed guidance to drive auditors to perform **more consistent, robust risk assessments**. Among other improvements, the standard has been modernized in terms of the auditor's considerations related to the entity's use of **information technology**, and the auditor's use of **automated tools and techniques**, as well as emphasizing the auditor's **exercise of professional skepticism** and focusing the auditor on considerations about **fraud** (as appropriate – however, being mindful that there is a separate standard that more thoroughly addresses **the auditor's responsibilities relating to fraud in an audit of financial statements**).

- Topic: enhancing [quality management](#)

Objective: strengthen firms' systems of quality management, and a renewed focus on engagement quality reviews and managing and achieving quality for individual audit engagements. These are three inter-related projects aimed at, among other matters, encouraging a **proactive approach to quality management**, reinforcing the need for **robust communication and interactions** during the

audit engagement, and fostering an appropriately independent and challenging **skeptical mindset** of the auditor.

- Topic: strengthen and clarify requirements when performing [group audits](#)

Objective: strengthen and clarify the auditor's approach to planning and performing a group audit in the context of the key factors which drive certain **special considerations that affect the auditor's work effort** in group audits. Group audits include audits of the **most systemically important entities** globally.

We are also finalizing our Strategy for 2020-2023 and Work Plan for 2020-2021—both of which benefit from an extensive public consultation. The setting of this new Work Plan offers the IAASB the opportunity to address emerging topics of public interest.

### **Joint Efforts to Enhance Public Trust and Address an Evolving Environment**

Our **two boards are also pursuing coordination on multiple workstreams**. We view this coordination as a strategic imperative given the complementarity of auditing and ethical standards and our shared objective of mutually compatible standards. Such coordination is especially critical for our concurrent initiatives regarding **professional skepticism** and **technology**, as these issues are central to audit quality and the environment in which auditors and other practitioners operate.

We see **three significant trends** that drive progress in auditing to respond to perceptions about the value and relevance of audit:

- There is a need to improve corporate reporting – and both audit and ethics have much to offer. Our recent and future work, outlined above, is largely about audits of financial statements, but there is also a need to provide an improved platform for assurance on “extended external reporting” – which includes disclosures on environmental, social, and governance matters. The IAASB has a [project](#) to provide guidance on this topic. The IESBA is completing a [project](#) on “role and mindset” for all professional accountants, including preparers of financial statements.
- Audits need to be seen to be of relevance to entities in all parts of the economy. The IAASB has launched a [project](#) to explore how best to address audits of less-complex entities.
- Developments in technology are rapidly transforming the business landscape, including the business models of accountancy firms and, in particular, how they deliver audits to their clients. Our boards agree that it is imperative to understand the pervasive implications of these developments from both audit and ethical perspectives. They are therefore pursuing strategic initiatives on technology with a view to developing timely responses.

### **Conclusion**

The standards on which we are working respond to global developments and feedback from a wide range of stakeholders. Their application will raise the bar for audit quality and for ethical practice covering all professional accountants in the years ahead.

Acknowledging that the global accountancy profession espouses our commitment to the public interest through its support to the development of the international standards, we strongly believe that adoption



and implementation of these standards enable the profession and those overseeing it to retain the trust and confidence of stakeholders and the wider public.

We will closely follow the process and conclusion of your inquiry as it will be a valuable input to our continuing work to set high-quality auditing, assurance and ethical standards in the public interest.

If you have any questions, please feel free to contact us at [REDACTED] and [REDACTED] or James Gunn, Managing Director, Professional Standards at [REDACTED]

Yours truly,

Mr. Tom Seidenstein  
Chairman, IAASB

Dr. Stavros Thomadakis  
Chairman, IESBA