



Australian Government
Auditing and Assurance Standards Board

Podium Level 14, 530 Collins Street
Melbourne VIC 3000 Australia
PO Box 204, Collins Street West
Melbourne VIC 8007

25 October 2019

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

Dear Sir / Madam

The AUASB is pleased to provide our submission to the inquiry of the Parliamentary Joint Committee on Corporations and Financial Services (the Committee) into Regulation of Auditing in Australia.

The Auditing and Assurance Standards Board (AUASB) is an independent, non-corporate Commonwealth entity of the Australian Government that serves the public interest and is responsible for developing, issuing and maintaining high-quality auditing and assurance standards. Sound public interest-oriented auditing and assurance standards are necessary to reinforce the credibility of the auditing and assurance processes for those who use financial and other information.

The purpose of an audit is to enhance the degree of confidence of intended users in the financial report¹. This is more important than ever due to recent deterioration in public trust in institutions, companies and government. Audit can assist with trust as it adds credibility to the financial report prepared by companies, enhances confidence and lowers the cost of capital by reducing risk to investors. As Figure 1 below depicts, company directors, audit committees and management, accounting, audit and ethics standard setters, the Financial Reporting Council (FRC), professional bodies, and Australian Securities and Investments Commission (ASIC), are all key parties contributing to quality financial reporting. High quality financial reporting also contributes to audit quality.

The AUASB sets Australian Auditing Standards (ASAs) and Australian Standards on Review Engagements (ASREs) which establish requirements and provide application and other explanatory material on the responsibilities of the auditor (and other assurance practitioners, as appropriate) when performing audits or reviews of financial reports. These standards are legally enforceable for audits or reviews of financial reports required under the *Corporations Act 2001*. The ASAs and ASREs prescribe the basic principles and requirements when undertaking a financial report audit or review, and in line with a strategic direction from the FRC, are based on the International Standards issued by the International Auditing and Assurance Standards Board (IAASB) which are generally accepted worldwide. The use of a single set of robust auditing standards contributes to enhanced engagement quality and consistency of practice throughout the world and strengthened public confidence in the global auditing and assurance profession. The IAASB is continually enhancing the international

¹ Auditing Standard ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*, Paragraph 3



auditing standards to respond to an ever-changing business environment and the associated risks, as well as addressing audit quality concerns internationally.

Key Parties Contributing to Quality Financial Reporting

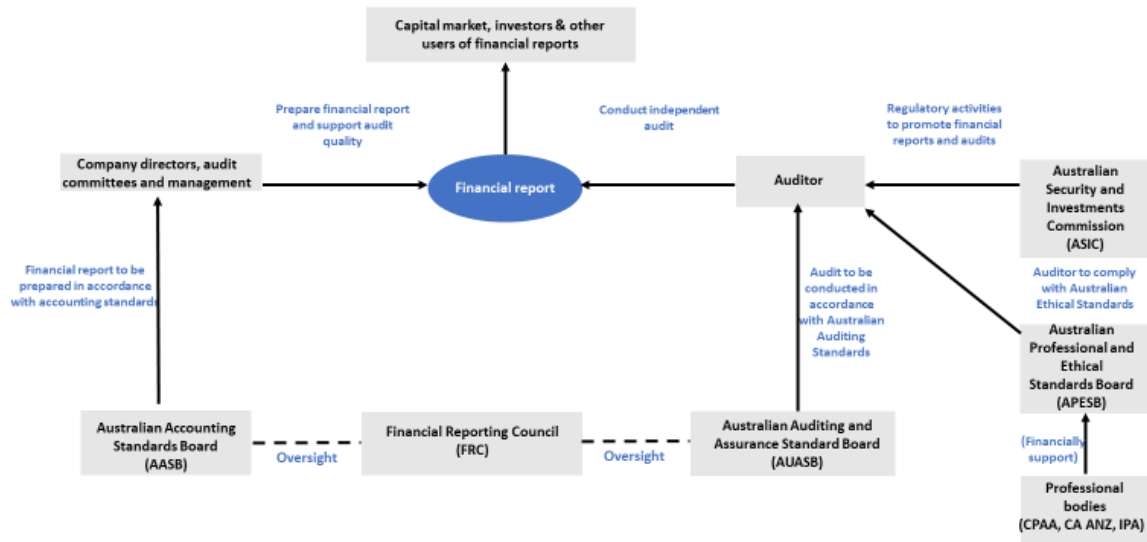


Figure 1

As well as the ASAs, the AUASB has a well-established Assurance Framework that includes different types of assurance standards depending on the nature and extent of assurance required. The AUASB also issues guidance to assist with implementation of our auditing standards and have a suite of Guidance Statements which have been released generally to address Australian specific matters (for example, *Corporations Act 2001* and APRA auditor requirements). All AUASB pronouncements are sector (private for profit and not for profit, and public entities) and framework neutral, and principles-based to encourage the auditor to apply their professional judgement and exercise professional scepticism at all times. The application of principles-based standards can also be tailored as necessary for all audits regardless of size, sector and reporting framework.

The AUASB is supportive of evidence-informed, best practice initiatives aimed at improving the quality of audit and financial reporting in Australia. We recognise that high quality auditing standards, which are the responsibility of the AUASB and which are able to be consistently applied, are one of the foundations of high quality audits. However, auditing standards alone are not sufficient to ultimately achieve audit quality. Improving audit quality requires interaction between, and action by, all key parties / stakeholders in the financial reporting supply chain.

Audit quality is also impacted by the complexity of financial reporting requirements and the quality of the preparation of financial reports. Preparers and auditors of financial reports are faced today with more complex business models and environments that require more sophisticated reporting and assurance standards from standard setters (the Australian Accounting Standards Board and AUASB). Directors, audit committees and management have an important role to support the implementation and review of these standards by financial report preparers and auditors. Primary responsibility for high quality financial reporting lies with company directors, audit committees and management and we support consideration of initiatives to increase transparency of and accountability for the design and



implementation of effective processes and internal controls in place relevant to financial reporting.

Additionally, Regulators such as ASIC, have an important role to not only ensure the enforcement of accounting and auditing standards as required by the *Corporations Act 2001* and other legislation, but just as important to also support the accounting and auditing profession by transparently providing details of their review and inspection findings and to work with the profession to identify opportunities for improvement.

The AUASB has been closely monitoring the debate about audit quality internationally and in Australia. The AUASB has been working in collaboration with the FRC and a broad range of auditing and assurance stakeholders to better understand and improve the levels of audit quality in Australia. To further support this, the AUASB has been allocated additional government funding for the next three years to expand our work in this area.

ASIC is responsible for assessing compliance with the auditing standards and for taking enforcement action where appropriate. The benefits of separating the setting of legal requirements from the enforcement of these requirements is generally well recognised. We are committed to producing high quality auditing standards and working proactively with ASIC to address any matters identified through their Inspection Program. To that end we welcome increased engagement with ASIC and more transparency on their interpretation of our standards and where they consider that further enhancements or guidance is required to assist with auditor's application.

The AUASB considers there should be a continued focus on assessing audit quality, understanding the root cause of and strategies to improve the results of the ASIC Audit Inspection Program. It is widely accepted that regulatory inspection findings are but one indicator of audit quality and it is necessary to look more holistically at measuring and assessing audit quality. For this reason, we recommend caution not to introduce changes without understanding the status of audit quality in Australia. In this regard the AUASB supports the Committee's previous recommendation to ASIC to report on a wider range of audit quality indicators which may be monitored over time. Measuring and monitoring the right indicators will provide further insights about audit quality and facilitate a more informed and enhanced discussion of the purpose and value of audit. However, we encourage consideration as to what are the right indicators and also who should be responsible for reporting these, including the role of the FRC, given its mandate to provide strategic advice on audit quality in Australia.

Please find enclosed our detailed submission addressing the Inquiry's Terms of Reference. The AUASB Chair would be pleased to appear in person before the Committee and supports this submission being made public.

Yours sincerely,

Professor Roger Simnett AO
Chair and CEO
Auditing and Assurance Standards Board



Terms of Reference #1: The relationship between auditing and consulting services and potential conflicts of interests

The independence of the auditor is a pre-condition of a high quality audit and is vitally important in enhancing user trust and confidence in the value of audit and the quality of the financial report. Independence has two dimensions, independence of mind and independence in appearance. Independence of mind allows the auditor to form an objective and impartial view when forming an opinion on the financial statements. Being independent in appearance allows users to have confidence in that audit opinion, thus underpinning the value of the audit. The AUASB is aware that there is a perception that the provision of non-audit services by the auditor (to audit clients) may impair the auditor's independence.

Increasing complexity of legislation, the business environment and accounting standards, has not only resulted in a more complex audit environment but has driven an increase in demand for consulting services. The large accounting / audit firms have grown their services to meet this demand and now a substantial part of their business constitutes the provision of other services such as advisory or consulting services, which they provide to entities they audit (non-audit services) and to other entities.

In informing this discussion the AUASB has focused on whether the existing rules in relation to the provision of non-audit services are appropriate and sufficient to protect the auditor's independence and objectivity, are they being complied with, and whether there is sufficient transparency about the types of non-audit services auditors are providing.

Independence, current requirements and in-train initiatives

In this area the AUASB recognises that legislative and professional ethical standards play a key role. There are currently extensive requirements contained in *The Code of Ethics for Professional Accountants* (the Ethics Code) issued by the Accounting Professional and Ethical Standards Board (APESB), and the *Corporations Act 2001*, which auditors must comply with in relation to independence.

The Ethics Code is principles-based and includes specific prohibitions and requirements relating to auditor independence and conflicts of interests. The Ethics Code has recently been enhanced in relation to non-audit services which are prohibited, and threats to independence and conflicts of interest. Internationally IESBA² are currently looking at amending the non-audit services provisions in the International Code of Ethics to further increase confidence in the independence of audit firms.

There are also provisions in the *Corporations Act 2001* related to the disclosure of the auditor's independence and non-audit services provided. For example, the auditor is required to provide a declaration of independence to the directors which is included in the Director's Report³ and Directors also include a statement⁴ in the Director's Report that they are satisfied that the provision of non-audit services is compatible with the independence requirements. Additionally, the Australian Accounting Standards require the disclosure of fees paid to the

² International Ethics Standards Board for Accountants

³ Section 307C of the *Corporations Act 2001*

⁴ Section 300(11B)



auditor for the audit or review of the financial statements and all other services performed during the reporting period⁵ (refer below for further detail).

The Auditing Standards include the following:

- *ASA 102 Compliance with Ethical Requirements When Performing Audits, Reviews and Other Assurance Engagements* requires auditors to comply with the ethical requirements when performing an audit, review or other assurance engagement;
- *ASQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements*, which includes requirements for firms to apply when managing independence and the acceptance and continuance of Client Relationships and Specific Engagements. This standard includes specific requirements for audit firms to have policies and procedures designed to provide it with reasonable assurance that the firm and its personnel maintain independence; and
- *ASA 220 Quality Control for an Audit of a Financial Report and Other Historical Financial Information* which requires the engagement partner to form a conclusion on compliance with independence requirements that apply to the audit engagement, and includes specific steps they must do to make this conclusion including obtaining relevant information from the firm, evaluate any identified breaches, and if considered appropriate, to withdraw from the audit engagement, where withdrawal is possible under applicable law or regulation.

As part of its continuous improvement processes the IAASB is currently working on enhancements to ASQC 1 and ASA 220, specifically with the focus on increasing firm leadership and engagement partner responsibilities, accountability, and improving firm governance.

ASIC considers possible auditor independence issues during its ASIC Audit Inspection Program when reviewing audit files and reviewing firm policies and processes to avoid potential conflicts of interest. ASIC also reviews fees for non-audit services in the financial reports of the ASX 300 listed entities. Refer to Submission number 16 by ASIC for the results of their programs.

The disclosure of consulting services provided and potential conflicts of interest

It is important to note that there are broadly two types of non-audit services provided by an auditor to their clients; those that are related to and complementary to the audit (commonly referred to as audit-related services), and those that are not related to or complementary to the audit (consulting services which don't rely on any synergies in knowledge, etc.). The performance of the services complementary to the audit requires a deep understanding of the business and its systems of internal control, to enable appropriate risk assessment and design of appropriate procedures. For example, the complementary services can include assurance procedures over many regulatory returns that benefit from an auditor's knowledge of the client and industry. Having the auditor providing these complementary services can improve audit quality as knowledge gained from undertaking these services contributes to the auditor's

⁵ AASB 1054 *Australian Additional Disclosures*, Paragraphs 10 & 11



understanding of the entity. Engaging another service provider to perform these complementary services would likely result in increased costs to the audited entity as the other provider would need to build the necessary knowledge and experience, which potentially could result in lower quality for these engagements. In addition, some of these complementary regulatory assurance services are prescribed by law or the relevant regulator to be performed by the auditor.

The *Corporations Act 2001* and Australian Accounting Standards currently require disclosure of all amounts paid to the auditor split between audit fees and other services including the nature of the other services. In the Australian Accounting Standards, the following disclosures are required by AASB 1054 *Australian Additional Disclosures* which applies to publicly accountable entities:

10. An entity shall disclose fees to each auditor or reviewer, including any network firm, separately for:

- (a) the audit or review of the financial statements; and
- (b) all other services performed during the reporting period.

11. For paragraph 10(b) above, an entity shall describe the nature of other services.

We have observed inconsistencies in disclosures of the fees paid to the auditor, including how the nature of other services are described. We recommend that a clearer framework is adopted in the reporting of fees to the auditor in the financial report, which discloses fees that are related to and complementary to the audit separately from those that are not related to or complementary to the audit. This would improve the information of the nature of non-audit fees paid to the audit and allow users to make informed judgements in this area.

We are also aware that the large audit firms and many audit committees have policies and processes in place to manage auditor independence, including the review and pre-approval of the provision of non-audit services. The AUASB consider that the perception that the provision of non-audit services to audit clients negatively impacts the auditor's independence could be reduced by enhancing the disclosure of fees paid to auditors, requiring more transparency about the extent of prohibitions contained in legislation already in place, and the processes that auditors and directors have adopted in ensuring non-audit services do not impact independence.

Evidence on Independence and Objectivity

We bring to the Committee's attention that in 2018 the AUASB, in conjunction with the FRC conducted a survey of [Audit Committee Chairs](#) (ACCs) of the ASX 300. In response to the question "to what degree did the external auditor exhibit independence and objectivity?" ACCs rated their auditor with a mean score of 6.04 on a seven point scale (where 1 is a low level of satisfaction, 4 is as expected, and 7 a high level of satisfaction), indicating that ACCs of the ASX 300 are very satisfied with the auditor's demonstration of independence and objectivity in their work.



Conclusion

The AUASB is supportive of any measure that supports higher audit quality including ensuring that the provision of non-audit services to audit clients does not impair independence and audit quality. However, it is important to distinguish between those services complementary to the audit from those that are not complementary to the audit when considering whether current legislation is appropriate.

As detailed above, the AUASB recommends that there is a clearer framework adopted in the reporting of fees to auditors in the financial report to assist with making informed judgements in this area. We also consider more transparency to users about the existing legislation in place to safeguard the auditor's independence would be beneficial.

The AUASB also considers that there would be benefit in waiting for the IESBA to complete its current project reviewing the prohibitions relating to the types of non-assurance services that can be provided to audit clients, as this may result in further restrictions which may address some of the concerns raised on this issue. Further information about this project can be found in the submissions to this inquiry made by the APESB and IESBA.

Terms of Reference #2: Other potential conflicts of interest

Long auditor tenure and audit partner rotation requirements

In this area the AUASB recognises the discussion around long audit tenure as sometimes being identified as a potential threat to auditor's independence. In Australia to ensure individual partners do not remain engaged on an audit for a period which may impact auditor independence through familiarity, there are rules for partner rotation included in the Ethics Code and the *Corporations Act 2001*. For example, the rotation of the audit partner on listed entity audits is required every five years.

Evidence on firm rotation in Australia

Recent research conducted in Australia by Professor Elizabeth Carson of UNSW Sydney and published as *Audit Market Structure and Competition in Australia*⁶ (AUASB Research Report 3) shows that, over the period 2012 to 2018, on average 8.34% of listed entities change their auditors in any given year. The average rate of change is higher for small clients (bottom 500 entities listed on the ASX by market capitalisation) at over 10% per year, and lower for large clients (Top 500 on the ASX by market capitalisation) which is about 3% in a given year. This research also compares the impact on the audit fees following a change in auditor and finds that in a minority of cases (approximately 15%) the audit fee is materially unchanged, in 36% of cases the audit fee increases by more than 5%, and in nearly half of the cases the audit fee decreases by more than 5%.

Most overseas jurisdictions have partner rotation requirements however some overseas jurisdictions (such as the European Union, South Africa) have also introduced mandatory firm rotation. Firm rotation can result in increased costs (i.e. organisational disruptions, audit start-up costs to build required client knowledge, and loss of client-specific knowledge). This loss of knowledge could impact the quality of the service delivered. We are also aware that

⁶ [AUASB Research Report 3: Audit Market Structure and Competition in Australia: 2012-2018](#) Professor Elizabeth Carson, UNSW Sydney



some countries, such as South Korea, Argentina and Brazil, have in recent years reversed their policies for firm rotation.

Conclusion

It is important that any enforced requirements relating to the rotation or audit partners and /or firms does not have any unintended consequences and negatively impact audit quality. Any legislative consideration should be based on evidence relevant to the circumstances of the Australian market.

Terms of Reference #3: The level and effectiveness of competition in audit and related consulting services

Evidence on the audit market structure and competition in Australia

In considering this matter the AUASB reviewed recent Australian research conducted on the market structure of the audits of listed entities⁷. This research shows that the audit market for listed entities is highly segmented and supplier concentrated, but not increasingly so, over the period 2012-2018. The research includes a breakdown of listed entities between very large (Top 200), large (next 201 – 500), medium, and small (smallest 500) based on market capitalisation.

Key findings are:

- The big 4⁸ audit firms now audit less than 38% of the entire number of the Australian listed client market, declining from 41% in 2012. This is different to the United States and the United Kingdom where the big 4 audit firms audit 70% and 84% respectively of the listed client market, possibly reflecting differences in the size and nature of the listed entities in Australia⁹;
- The largest and most complex audits are audited by the big 4 audit firms, with 92% of the number of the 200 largest entities by market capitalisation audited by the big 4. This percentage has not changed from 2012 to 2018;
- The next two largest audit firms¹⁰ audit more than 20% of the population of listed entities, but their average client profile is outside the 200 largest entities by market capitalisation;
- Medium sized audit firms (i.e. those who audit more than 10 listed entities, but not the 6 largest audit firms) have grown their market share from 29.17% in 2012 to 31.82% in 2018 based on the number of listed entities;
- Small audit firms audit 6.53% of the number of listed entities. This has reduced slightly from 7.82% in 2012;

⁷ [AUASB Research Report 3](#): Audit Market Structure and Competition in Australia: 2012-2018 Professor Elizabeth Carson, UNSW Sydney

⁸ The 4 largest audit firms in Australia are PWC, KPMG, EY, Deloitte

⁹ Australia's largest 300 companies (ASX 300), is smaller but more comparable to the larger end of markets such as the U.S and the U.K. The Australian listed market in total is commonly compared in size and nature to the Canadian listed market, which is therefore our nearest comparator for whole of listed market comparison.

¹⁰ Grant Thornton and BDO



- The market share split between the audit firms looks very different when measured based on audit fees, with the big 4 audit firms receiving 87%, the next two largest audit firms receiving 5.33%, the medium non-big 4 receiving 6.2%, and small audit firms receiving 1.12%, of the total audit fee revenue for all listed entities;
- The big 4 audit firms' share of the small client segment has fallen over the last 7 years; and
- There is a reduction in the number of small audit firms undertaking listed company audits, from 55 individual audit firms to 38.

This research concludes that the Australian audit market is highly segmented with different levels of concentration across the client size segments. The largest clients are serviced by the big 4 audit firms, whilst smaller clients are serviced by large, medium and smaller audit firms.

This research also examined the concentration of the market using recognised research methods¹¹. The results show that the overall Australian audit market when using audit fees as a measure is highly concentrated however not increasingly so since 2012. In fact, there has been a slight reduction in concentration in the audit market over this period, which is slightly below the ACCCs guideline as an indicator of a point at which a merger would raise competitive concerns. The concentration ratios are very high for the largest 200 clients by market capitalisation but significantly less so at the smaller end of the client size.

Audit fees are growing at an average of 2.82% per annum across the market. The increase for the big 4 audit firms is slightly higher (3.65% per annum) than the average however the clients of the big 4 have grown in size by 50% (cumulative for the period). The average fees per audit paid to the small audit firms has decreased over this period.

When considering the average increase in fees over the period the AUASB noted that there has been a considerable increase in the complexity of business and their environments, as well as accounting and auditing standards, over this period. Whilst the AUASB cannot comment on all the market factors which may have influenced audit fee growth over this period, it is reasonable to conclude the growth in audit fees has not been excessive, and if anything, has been out of proportion with the underlying growth of clients in the audit market. This raises a concern in an environment where the role of an auditor is becoming more complex. The AUASB would support measures that ensure auditors are properly remunerated to ensure optimal audit quality. This may also reduce the perception associated with audit services being seen as a "loss leader" for audit firms.

Based on this the AUASB note that:

- Whilst the audit market is highly concentrated, especially at the top end of the listed market, the average increase in audit fees indicates this is a highly competitive market. The AUASB caution that there has been an increase in the requirements in Accounting and Auditing Standards and the complexity of the business environment over this time, and that audit fees need to keep pace to ensure audit quality is at the desired level;

¹¹ Herfindahl-Hirschman Index (HHI) and Concentration Ratios (CR)



- The big 4 audit firms audit the vast majority of the ASX 200, however, this is to be expected given that large complex entities need auditors with the resources and international operations to provide these services;
- The concentration statistics are not in excess of the ACCC's measures which have been used in the past to identify whether a proposed merger would raise competitive pressures;
- The Australian listed audit market is significantly more segmented and is not as concentrated as that of the United Kingdom and the United States; and
- The ASIC Audit Inspection Program is heavily focused on the 6 largest audit firms, however this research shows that there are a large number of smaller listed entities being audited by other auditors and there needs to be due consideration as to whether there is sufficient regulatory oversight for these (including the Accounting Professional Bodies quality control processes).

The AUASB's comments above relate to the listed audit market and note it is not possible to perform a similar analysis for non-listed entities as there is no available information.

Conclusion

The AUASB recommends that a consideration about further measures to increase the competition of the listed audit market be informed by evidence of the nature of the Australian market and its complexities as detailed above.

Terms of Reference #4: Audit quality, including valuations of intangible assets

The AUASB's mission is to develop, issue and maintain in the public interest, best practice Australian auditing standards and guidance that meet user needs and enhance audit consistency and quality. High quality auditing standards which are able to be consistently applied are a foundation of audit quality. The AUASB has therefore been closely monitoring the audit quality debate to identify any areas where our standards are not contributing to enhanced audit quality or where guidance is required to assist with consistent interpretation and application.

Framework and measures of audit quality

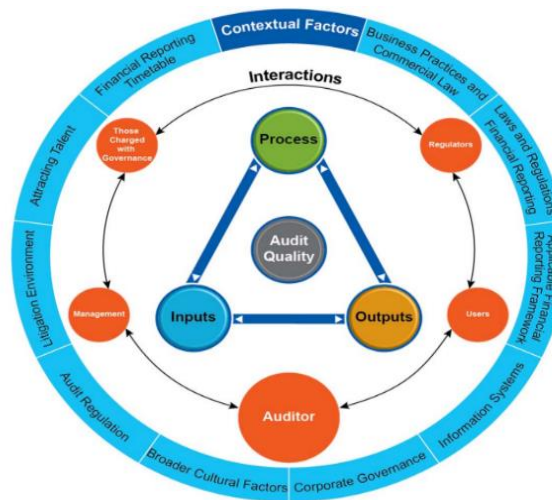


Figure 2: IAASB's Framework for Audit Quality

Audit quality is a multi-dimensional concept and the term is frequently used in debates among stakeholders, regulators, standard setters, audit firms, in research and policy setting. Although there is no definition or analysis that has achieved universal recognition, the AUASB wishes to bring to the Committee's attention the [IAASB's Framework for Audit Quality](#) which describes the key elements (the input, process and output factors) that contribute to audit quality. The Framework importantly emphasises 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.

Much of the audit quality debate today in Australia has been driven by reference to a single indicator, ASIC Audit Inspection Program findings. It is widely accepted that regulatory inspection findings are but one measure of audit quality and it is necessary to look more holistically when measuring and assessing audit quality. In this regard the AUASB supports the [Joint Parliamentary Committee's previous recommendation](#) to ASIC to report on a wider range of audit quality indicators which may be tracked over time. Measuring and tracking the right indicators will provide further insights about audit quality and facilitate a more informed and enhanced discussion of the purpose and value of audit. However, we encourage further consideration as to what are the right indicators and also who should be responsible for reporting these, including the role of the FRC, given its mandate to provide strategic advice on audit quality in Australia.



The ASIC Audit Inspection Program

ASIC is responsible for assessing compliance with the auditing standards and for taking enforcement action where appropriate. It is worthwhile noting that an adverse ASIC Audit Inspection finding can result from;

- Deficient audit application;
- A difference in professional judgements made by the auditor when compared to the ASIC inspector; or
- A difference in interpretation of the Auditing Standards made by the auditor when compared to the ASIC inspector.

The AUASB has been working with ASIC and the big 6¹² audit firms to identify those areas where further guidance is desired to clarify how to interpret the Auditing Standards. For example, the AUASB is in the process of updating Guidance Statement 005 *Using the Work of a Management's Expert* to clarify the requirements in order to address previous ASIC Audit Inspection findings.

The AUASB considers there should be continued focus on assessing audit quality and understanding the root cause of and strategies to improve the ASIC Audit Inspection Program results. We are committed to producing high quality auditing standards and working proactively with ASIC to address any matters identified through their Inspection Program. The AUASB would welcome increased engagement with ASIC and the major audit firms on the interpretation of our standards as part of ASIC's Audit Inspection Program. It is only with details of where common issues arise that we can identify where additional enhancements to the auditing standards or guidance is required to assist with auditor's application.

It is important to note that the ASIC Audit Inspection Program is a risk-based sample focusing on the big audit firms, complex and challenging audits, and more significant or higher risk areas of the financial reports. For this reason, AUASB agrees with ASIC's view that the results cannot be generalised across the entire market, and that the results cannot be compared over time. Also, in any one review period, ASIC perform a small number of detailed inspections relative to the number of listed entity audits a firm conducts, further decreasing the ability to analyse the results across firms and over time. This further supports the need to consider other measures of audit quality which can be monitored over time.

Audit Quality initiatives in collaboration with the FRC

The AUASB has been working in collaboration with the FRC and a broad range of auditing and assurance stakeholders on understanding and improving the levels of audit quality in Australia. In recognition of the role that the AUASB plays in supporting audit quality, we have been allocated additional funding for the next three years to expand our work in this area. In order to better understand and assess the issues surrounding audit quality the AUASB has supported the FRC Audit Quality Action Plan by conducting the following surveys of key stakeholders:

¹² Largest 6 audit firms are PWC, KPMG, EY, Deloitte, BDO and Grant Thornton



- Audit Committee Chairs (ACCs) of the ASX Top 300 companies which provided evidence that the ACCs are very satisfied with the quality of their auditors.
- Professional Investors which provided evidence that professional investors do not consider audit quality as a matter of concern in Australia.

The FRC and the AUASB have also conducted a comparable survey with Chief Financial Officers and are currently finalising the results. The ACC survey will be re-performed and expanded to the ASX Top 500 companies in 2019-20.

How the AUASB standards enhance audit quality across the profession

Whilst most of the discussion in this submission centres on the audit market and audit oversight of listed entities, the AUASB's mandate covers the development and maintenance of auditing and assurance standards and guidance for all entities. AUASB Standards are:

- Sector neutral and apply to all entities in the 'For Profit', 'Not for Profit' and 'Public/Government' sectors;
- Principles-based, with the auditor expected to use professional judgement in light of the given circumstances in order to achieve the objectives of the audit, review or other assurance engagement;
- Applicable to entities of all sizes and complexities across different industries; and
- Developed and implemented through engagement and outreach activities that are timely and responsive to the needs of our stakeholders.

Application guidance specific to the audits of public sector entities or smaller and less complex entities is included in most AUASB audit standards.

Additionally, as part of its current technical work program the AUASB has specific projects underway to address:

- Public sector specific audit issues by establishing a project advisory group to develop guidance specifically targeted to address audit quality issues experienced by public sector auditors; and
- Challenges with the application of the auditing standards experienced by auditors of smaller and less complex entities (LCEs) by issuing a Discussion Paper and developing and distributing a survey targeted at small and medium audit practitioners to capture feedback on views about possible actions to address the challenges associated with LCE audits.

Key standards setting initiatives to enhance audit quality

Robust auditing standards support the performance of high-quality audits. The AUASB is required, under its directive from the FRC, to use the International Standards on Auditing (ISAs) of the IAASB as a base for the ASAs. This is vitally important to support Australian auditors working on multi-national audit clients. Consistent auditing standards across jurisdictions support audit quality. The AUASB contributes to the development of high



quality ISAs through our [AUASB International Strategy](#), and there is Australian representation on the IAASB. We have confidence that the standards issued by the IAASB are developed under a robust standard setting process in the public interest and are of high quality. The AUASB amends the international auditing standards when there is a compelling reason to do so, including where an amendment would have a positive impact on audit quality in Australia.

In response to inspection findings from around the world, and as part of a continuous improvement process, the IAASB are continually focusing on updating auditing standards to enhance audit quality. The IAASB identified areas where the auditing standards needed to be enhanced through its ISA Implementation Monitoring Project and those arising from the continually changing environment. The IAASB have also identified areas of the auditing standards which needed to evolve to address recent significant revisions to international accounting standards, which added additional complexity and future oriented judgement to the financial reporting preparation and consequently the audit process. As a result, the following projects designed to enhance audit quality internationally are in progress with the outputs to be adopted, following due process, in Australia:

- The auditing standard addressing identifying and assessing the risks of material misstatement has been updated and establishes more robust requirements to drive auditors to perform consistent and effective identification and assessment of the risks of material misstatement;
- Enhancing quality management standards at both firm and engagement levels to include a proactive risk-based approach to effective quality management systems within firms that establish the foundation for consistent engagement quality;
- Strengthening and clarifying requirements when performing group audits, which will enhance the robustness of the largest and most complex audits; and
- Challenging the continuing robustness of our audit evidence standard which includes consideration of the impact of emerging technology on the performance of an audit.

Accounting estimates including valuation of intangibles and revised ASA 540 on Auditing Accounting Estimates

Increasing complexity of business models and environments require more sophisticated accounting and auditing standards. Accounting estimates, including the valuation and impairment of assets such as intangibles, are often highly complex, involving high levels of professional judgement. The estimates are often based on complex models that involve forecasting and assumptions about future business performance and events. As a result, the auditing of estimates is very challenging, as it is more difficult to gather sufficient and appropriate evidence for matters that have not yet occurred. Audit teams are more often using specialists who are valuation and / or industry specialists to assist.

The auditing of accounting estimates is an area ASIC has identified where improvement is necessary. The AUASB has recently released updated ASA 540 *Auditing Accounting Estimates and Related Disclosures* in December 2018, with the objective of improving the quality of auditing of management estimates (including intangibles) and disclosures and to address audit quality concerns in this complex area. The AUASB is also currently developing implementation support for auditors and working with the Professional Accounting Bodies on



educative initiatives to support auditors in the implementation of ASA 540. The revised version of ASA 540 is operative for financial reporting periods commencing on or after 15 December 2019 (with early adoption permitted prior to this date), and therefore any positive impact it may have on this area is yet to be known.

Attracting and retaining talent into the audit profession

Professional judgement underpins audit quality. High quality professional judgement requires highly skilled and experienced people. Attracting and retaining talented people into the audit profession is critical. The AUASB is aware of concerns that the attractiveness of the audit profession is declining, resulting in difficulties in recruiting and retaining talented staff. The decline in the number of Registered Company Auditors and the potential reduction in the number of auditors being attracted to the profession has serious implications for the industry. The AUASB, the accounting professional bodies, educational institutions, auditing firms and regulators all have a responsibility to promote and support the critical role auditors have in the economy which will hopefully improve the quality and number of staff attracted to the profession both now and in the future.

Conclusion

The AUASB agrees that there should be continued focus on improving audit quality based on the ASIC Audit Inspection Program results as well as understanding the root cause of any adverse findings. The AUASB also notes that audit quality is a multi-dimensional concept. It is widely accepted that regulatory inspection findings are only one measure of audit quality and it is necessary to look more holistically at measuring and assessing audit quality. We therefore support the Committee's earlier recommendation to ASIC to report on a wider range of audit quality indicators which may be monitored over time (refer above). Measuring and monitoring the right indicators will provide further insights about audit quality and facilitate a more informed and enhanced discussion of the purpose and value of audit. However we encourage further debate and consideration as to what are the right indicators and also who should be responsible for reporting these, including whether it is the FRC given its mandate to provide strategic advice on audit quality in Australia.

Improving audit quality requires interaction between, and action by, all key parties / stakeholders in the financial reporting supply chain including directors, audit committees and management, and encourage consideration of initiatives for how key parties / stakeholders may further support the objective of high audit quality. Another factor to consider is that improvements in audit quality are also impacted by the complexity of financial reporting requirements. Preparers and auditors of financial reports are faced today with more complex business models and environments that require more sophisticated reporting and assurance standards from standard setters (the AASB and AUASB). Directors and audit committees therefore also have an important role to support the implementation and review of these standards by financial report preparers and auditors.



Terms of Reference #5: Matters arising from Australian and international reviews of auditing

The AUASB has been monitoring the international reviews of auditing with the objective of identifying any best practice initiatives to consider in Australia. We note the following:

Monitoring Group review of the international audit standard setting process

The Monitoring Group (MG) is a group representing international financial institutions and regulatory bodies and is responsible for the overall governance process for the development of international standards for audit, assurance, ethics and education. In response to concerns about the International audit standard setting process, including a perception that the audit profession has undue influence, the MG issued in November 2017 a Consultation Paper [*Strengthening the Governance and Oversight of the International Audit-Related Standard-Setting Boards in the Public Interest*](#). In this Consultation Paper the MG proposed reforms to the IAASB and the IESBA.

The [AUASB responded to this Consultation Paper](#) in February 2018 and was supportive of the MG's initiative to undertake this review of the governance and oversight of the international audit-related standard-setting boards. However, the AUASB did not support a number of the proposed options for reform presented by the MG. In particular we were concerned that the consultation paper did not contain sufficient information to support the case for many of the MG's proposed reforms and appeared to draw upon feedback from a narrow base of constituents when assessing the need for change. The consultation process continues and the AUASB continue to monitor and contribute to this process.

United Kingdom reviews of auditing

The AUASB has been monitoring the reviews of auditing which are underway in the UK. The UK Competition and Markets Authority (CMA) and the Department for Business, Energy and Industrial Strategy (BEIS) are proposing significant reforms to the accounting profession, and a review is also being conducted by Sir Donald Brydon called *Independent Review of the Quality and Effectiveness of Audit*, which is examining the purpose of audit and for whom it should be carried out, and whether this should be widened and strengthened to meet changing expectations of audit, and a range of other matters. The scope of this review is wide, and the results are unknown.

We are also aware that the FRC in the United Kingdom has very recently issued a revised going concern auditing standard in response to recent corporate collapses. This will result in significantly stronger requirements for auditors. It is important to recognise that the UK Corporate Governance Code has additional responsibilities for preparers of financial statements, as well as additional disclosure requirements in relation to going concern as well. Whilst going concern is not on the IAASB or the AUASB's immediate work plan this will be a project requiring further consideration going forward.

US: Sarbanes Oxley (SOX)

Following some major corporate collapses, the US introduced Sarbanes-Oxley in the early 2000s. This introduced enhanced reporting and accountability of management and directors for internal controls, and for auditors to provide assurance that the controls are operating effectively. The US also introduced a new regulatory body to oversee public company audits



(the PCAOB). Evidence suggests that this has led to improved internal controls supporting financial reporting, however there are considerable costs associated with implementing this regime and for the auditor to provide an opinion on an entity's compliance with the requirements.

We refer to the Submission number 16 by ASIC to this inquiry which provides some analysis of the likely benefits and challenges associated with the policy reforms considered internationally.

Conclusion

The AUASB and the IAASB actively monitor international developments in standard setting as well as other policy reforms introduced or being considered internationally.

The AUASB recommend that international policy reforms be considered and debated in Australia. However we would encourage the consideration of evidence evaluating the effectiveness (including the cost effectiveness) of these reforms in improving the overall quality of financial reporting and audit quality in our jurisdiction before they be adopted in Australia. The potential introduction of some of the proposed reforms would represent a move away from market-based solutions, an approach which has not been adopted in any major jurisdiction yet and therefore the effectiveness is unknown. In any consideration of policy reform, the AUASB recommend that consideration is given to the approaches taken in a range of different territories (such as implementation of SOX in the US) and an evaluation of the evidence that supports their effectiveness in improving the overall quality of financial reporting and audit quality.

Terms of Reference # 6: Changes in the role of audit and the scope of audit products

As outlined earlier in this submission, the AUASB has a well-established Assurance Framework that includes different types of assurance standards depending on the nature of reporting and the nature and extent of assurance required. The nature (subject matter) of reporting can be either financial information (for example, the audit of a financial report), or non-financial information (for example, information on operational controls, systems or processes; or environmental, social and governance information). The extent of assurance can either be reasonable or limited, differing in nature and extent of procedures undertaken, level of assurance provided, and the cost of assurance.

The *Corporations Act 2001* legislates an audit of the financial report for certain companies. The auditor's report covers the financial report only and does not cover the other components of the Annual Report, including Director's Report (with the exception of the remuneration report), operating and financial review (OFR), and any sort of management commentary. *ASA 720 The Auditor's Responsibilities Relating to Other Information* requires the auditor to consider and to report if there is a material inconsistency between the other sections of the Annual Report compared to the Financial Report. This auditing standard was updated in 2015 and is operative for financial reporting periods ending on or after 15 December 2016. The main change from the extant standard was to clarify in the report that the auditor's report does not cover the other components of the Annual Report, and to describe what other information was available to the auditor to consider at the time of the auditor completing the audit of the financial report. The objective of this auditing standard is for the auditor's report to provide clarity as to the auditor's responsibility in relation to the Annual Report. We are aware that



users may expect the auditor does more work on the other sections of Annual Report outside of the financial statements.

Many entities continue to provide, and investors and other stakeholders are continuing to ask for, more information reported to them than what is currently contained in the audited financial report, including information on an entity's strategy, governance and business model, key resources and relationships, and social and environmental issues. The *Corporations Act 2001* requires the reporting of some of this information in the OFR, but there is currently no requirement for this to be independently assured. Some entities are voluntarily reporting other additional information. In recognition of this the new ASX Corporate Governance Principles includes principle 4 for listed entities to “Safeguard the integrity of corporate reports”, and recommendation 4.3 “that a listed entity should disclose its process to verify the integrity of any periodic corporate report it releases to the market that is not audited or reviewed by an external auditor”. These principles come into effect for financial years commencing on or after 1 January 2020. It will be beneficial to see how these principles are operationalised (including whether entities elect to have this information independently assured), and how the approach of outlining the credibility enhancing techniques, increases confidence in this information.

The AASB have a significant project in progress looking at the Australian Financial Reporting Framework. The objective of this project is to determine who prepares financial reports, what needs to be reported, and the nature and extent of assurance required. The scope of this project is broad and includes listed and non-listed for-profit entities, not-for-profit entities, and public sector entities. The AUASB is supporting the AASB in this project.

Conclusion

Any expansion of legislative corporate reporting frameworks and any related assurance, needs to be considered carefully after receiving feedback from a wide range of stakeholders including preparers, auditors and users. Determining the information users want reported and the extent of assurance, and the cost of providing such information and assurance, is critically important. Any consideration in this area should be performed in conjunction with the AASB's Australian Financial Reporting Framework project.

Terms of Reference #7: The role and effectiveness of audit in detecting and reporting fraud and misconduct.

Existing responsibilities under the auditing standards

This is an area which is clearly within the AUASB's remit. Under the AUASB's auditing standards, auditors have a responsibility to consider and assess the risk of material misstatement in the financial statements due to fraud and non-compliance with all laws and regulations, to obtain reasonable assurance that the financial report as a whole is free from material misstatement due to fraud or error. The auditing standards clearly state that the auditor cannot be expected to detect all fraud or all non-compliance with laws and regulations due to the inherent limitations of an audit which are detailed below.

ASA 240 *The Auditor's Responsibility Relating to Fraud in an Audit of a Financial Report* contains specific requirements for the auditor which include identifying and assessing the risks of material misstatement due to fraud, obtaining sufficient appropriate audit evidence in



response to the assessed risk and to respond appropriately to fraud or suspected fraud identified during the audit.

ASA 250 *Consideration of Laws and Regulations in the Audit of a Financial Report* deals with the auditor's responsibility to consider non-compliance with laws and regulations. ASA 250 includes specific requirements for the auditor to perform in identifying material misstatement of the financial report due to non-compliance with laws and regulations. ASA 250 was recently updated to align with the new requirements in the Ethics Code released by IESBA in relation to reporting client non-compliance with laws and regulations (NOCLAR). These changes came into effect for financial reporting periods commencing on or after 1 January 2018.

The primary responsibility for the prevention and detection of fraud and non-compliance with laws and regulations rests with those charged with governance and management of the entity. This requires a culture of honesty and ethical behaviour enforced by those charged with governance and management, as well as a strong system of internal control.

Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements in the financial report may not be detected, even though the audit is properly planned and performed in accordance with the Australian Auditing Standards. In the context of fraud and non-compliance with laws and regulations the inherent limitations on the auditor's ability to detect material misstatements are greater.

It is inherently difficult for auditors to identify fraud as fraud typically involves:

- sophisticated and carefully organised schemes designed to conceal it;
- deliberate failure to record transactions;
- collusion between parties committing fraud; and
- intentional misrepresentation being made to the auditor.

It is also inherently difficult for auditors to identify non-compliance with laws and regulations as:

- there are many laws and regulations, relating principally to the operating aspects of an entity, that typically do not affect the financial report and are not captured by the entity's information systems relevant to financial reporting;
- non-compliance may involve conduct designed to conceal it, such as collusion, forgery, deliberate failure to record transactions, management override of controls or intentional misrepresentations being made to the auditor; and
- whether an act constitutes non-compliance is ultimately a matter to be determined by a court or other appropriate adjudicative body.

There are existing provisions which require the auditor to report instances of non-compliance with laws and regulations in certain circumstances. For example, in certain circumstances,



the auditor is required under the *Corporations Act 2001* to report suspected non-compliance to ASIC¹³.

The AUASB will be undertaking a post-implementation review of the changes to ASA 250, which came into effect for financial reporting periods commencing on or after 1 January 2018. The AUASB usually undertakes a post-implementation review two or three years after the implementation of a standard.

The existing scope of the audit is designed only to identify fraud and non-compliance with laws and regulations which have a material impact on the financial report. At the moment, neither the IAASB nor the AUASB have a formal project on their work agenda to extend the scope of the auditing standards in detecting and reporting fraud and misconduct. However, as a result of the various public inquiries on the role of auditors currently occurring around the world, we understand it is likely this topic will be one the IAASB and AUASB reviews at some point in the next few years.

Conclusion

Whilst there may be a public expectation that auditors do more in this area, any expansion of the scope of the audit needs to consider the inherent limitations detailed above, and the cost involved in doing so. Introducing a requirement to undertake specific forensic audit techniques would be costly. While such techniques may be beneficial in certain instances, and can be included as part of an audit plan where there is a reasonable suspicion of fraud (in fact are commonly part of the auditors appropriate response to fraud or suspected fraud identified during the audit), the AUASB is not aware of any evidence that a requirement to include such procedures more generally is cost-beneficial.

Terms of Reference #8: The effectiveness and appropriateness of legislation, regulation and licensing

The AUASB's processes for ensuring independent standard-setting in the public interest

The AUASB is an independent, non-corporate Commonwealth entity of the Australian Government that is responsible for and serves the public interest by developing, issuing and maintaining high-quality auditing and assurance standards.

The functions of the AUASB outlined in the *Australian Securities and Investments Commission Act 2001* are to:

- make auditing standards under section 336 of the *Corporations Act 2001* for the purposes of the corporations legislation;
- formulate auditing and assurance standards for other purposes;
- formulate guidance on auditing and assurance matters;

¹³ See ASIC Regulatory Guide 34 Auditors' obligations: Reporting to ASIC that provides guidance to help auditors comply with their obligations, under sections 311, 601HG and 990K of the *Corporations Act 2001*, to report contraventions and suspected contraventions of the Act to ASIC.



- participate in and contribute to the development of a single set of auditing standards for worldwide use; and
- advance and promote the main objectives of part 12 of the *Australian Securities and Investments Commission Act 2001*.

The AUASB's Australian Auditing Standards (ASAs) are legally enforceable for audits or reviews of financial reports required under the *Corporations Act 2001*. We follow a robust process in developing, issuing and maintaining in the public interest, high quality Australian auditing and assurance standards and guidance that meet user needs and enhance audit and assurance consistency and quality.

In line with a strategic direction from the FRC, our standards are based on the International Standards for Auditing (ISAs), issued by the IAASB and are generally accepted worldwide. The use of a single set of robust auditing standards contributes to enhanced engagement quality and consistency of practice throughout the world and strengthened public confidence in the global auditing and assurance profession. The IAASB is continually enhancing the international auditing standards to respond to an ever-changing business environment and the associated risks, as well as addressing audit quality concerns internationally. The AUASB contributes to the development of high quality ISAs through our [AUASB International Strategy](#), including membership on the IAASB. The AUASB amends the international auditing standards when there is a compelling reason to do so, including where an amendment would have a positive impact on audit quality in Australia.

As well as the ASAs, the AUASB has a well-established Assurance Framework that includes different types of assurance standards depending on the nature and extent of assurance required. The AUASB also issues guidance to assist with implementation of our auditing standards and have a suite of Guidance Statements which have been released generally to address Australian specific matters (for example *Corporations Act 2001* and APRA auditor requirements). All AUASB pronouncements are sector (private for profit and not for profit, and public entities) and framework neutral, and principles-based to encourage the auditor to apply their professional judgement and exercise professional scepticism at all times. The application of principles-based standards can also be tailored as necessary for all audits regardless of size, sector and reporting framework.

The AUASB Chair is appointed by the Federal Minister, and the other members of the AUASB are appointed by the FRC using a framework aimed at achieving balance between private sector auditors; public sector auditors; and representatives from industry, academia and other stakeholders. The members are appointed in their personal capacity and do not represent audit firms or other bodies. Refer to FRC.com.au for more information. The AUASB members adhere to the rules set out in the *Public Governance, Performance and Accountability Act 2013* relating to the duty of directors to disclose material personal interests, the conduct of officers and to exercise their powers and discharge their duties with care and diligence, in good faith and for proper purpose, and not improperly use their position or information.



AUASB Due Process

The due process for the development and issuance of Australian auditing and assurance standards and guidance statements is outlined in [AUASB Functions and Processes](#), available on the AUASB website [here](#). The following is also relevant to understand the operations of the AUASB:

- The AUASB does not receive any funding from members of the audit profession, or the Accounting Professional Bodies;
- All AUASB standard setting deliberations are conducted in public meetings and all relevant papers, including minutes, are available on our website; and
- All proposed auditing standards are released for public exposure before being adopted and the AUASB considers all stakeholder feedback in its standard setting deliberations.

Conclusion

The AUASB considers that its legislative framework and due process are effective and appropriate.

Terms of Reference #10: The adequacy and performance of regulatory, standards, disciplinary and other bodies

Adequacy and performance of the AUASB

The AUASB is required to prepare an annual Corporate Plan and Annual Report in accordance with the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) annually. The AUASB's latest version of these documents are available via the AUASB website at www.auasb.gov.au. The [AUASB's 2018-19 Annual Report](#) describes the AUASB's achievements for 2018-19 and demonstrates our commitment and progress to deliver on our strategic objectives. A detailed summary of how we have achieved the priorities in the AUASB's Strategy is contained in the AUASB's Annual Performance Statement, included in the Annual Report.

In its most recent Report¹⁴ on the 2017-2018 annual reports of bodies established under the *Australian Securities and Investments Commission Act 2001* (which includes the AUASB) the Committee considered that the AUASB has fulfilled its annual reporting responsibilities during the 2017–18 financial year.

Oversight of the AUASB by the FRC

The FRC is responsible for overseeing the effectiveness of the financial reporting framework in Australia which includes providing oversight of the AUASB. The following provides detail on how the FRC monitor the AUASB. Refer to TOR # 8 for detail on the AUASB's processes for ensuring the effectiveness and appropriateness of our standards.

¹⁴https://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Corporations_and_Financial_Services/Membership/Annual_Reports/201718



The FRC sets the AUASB's broad strategic direction and approves its priorities, business plan, budget and staffing arrangements, but has no power to direct the AUASB in relation to the development or making of a particular standard. The FRC monitors the operations of the AUASB including the operation of auditing standards to assess their continued relevance and effectiveness in achieving their objectives in respect of both the private and public sectors in the Australian economy. The AUASB Chair reports quarterly to the FRC. The FRC has concluded and communicated in their Annual Report that they are satisfied that:

- The AUASB has incorporated the International Standards on Auditing (ISA) standards within reasonable timeframes in accordance with the Strategic Direction;
- The AUASB has adequate post implementation review processes to assess the effectiveness of new standards and guidance, and that regular agenda consultation processes identify existing accounting and auditing standards where further guidance is necessary; and
- The AUASB consult appropriately before issuing new standards or guidance and that such mechanisms appropriately include roundtables, targeted outreach, education sessions, webinars, podcasts, LinkedIn and Twitter.

Refer to the FRC's submission for further details on their oversight of the AUASB.

Conclusion

In their most recent reviews of the AUASB both the Committee and the FRC have raised no concerns in relation to the adequacy and performance of the AUASB.

Terms of Reference #11: The effectiveness of enforcement by regulators

The ASIC Audit Inspection Program

ASIC is responsible for enforcement of the requirement of the *Corporations Act 2001* which includes compliance with our Auditing Standards. ASIC also have an important role to support the auditing profession by transparently providing details of their inspection findings and working with the profession to identify opportunities for improvement.

The AUASB is committed to producing high quality auditing standards and working proactively with ASIC to address any matters identified through their Audit Inspection Program where auditors are having difficulty interpreting or applying our standards. As articulated in our response to Terms of Reference # 4, the AUASB would welcome increased engagement with ASIC and the major audit firms on the interpretation of our standards. It is only with an understanding of where common issues arise that we can identify where additional enhancements to the auditing standards or guidance are required to assist with auditor's application.

The AUASB would also be supportive of the ASIC Audit Inspection Program being expanded to include a sample of randomly selected audits which would provide us with further information about the implementation of our standards. Also, as noted in Terms of Reference #3, the ASIC Audit Inspection Program is currently heavily focused on the six largest auditing firms, however, as identified by AUASB Research Report 3 there are a large number



of entities being audited by other auditors and there needs to be due consideration as to whether there is sufficient regulatory oversight over all audit firms undertaking audits of listed entities. If an entity is not inspected as part of the ASIC process, it is expected to be part of the Accounting Professional Bodies quality control processes.

The AUASB supports the [Committee's previous recommendation](#) to ASIC to report on a wider range of audit quality indicators which may be monitored over time. Measuring and monitoring the right indicators will provide further insights about audit quality and facilitate a more informed and enhanced discussion of the purpose and value of audit. However, we encourage consideration as to what are the right indicators and also who should be responsible for reporting these, including whether that responsibility should rest with the FRC given its mandate to provide strategic advice on audit quality in Australia.

Conclusion

As previously stated above, the AUASB:

- Welcomes increased engagement with ASIC and the major audit firms on areas where our standards can be enhanced;
- Is supportive of the ASIC Audit Inspection Program being expanded to include a sample of randomly selected audits; and
- Supports the [Committee's previous recommendation](#) that ASIC to report on a broader range of audit quality indicators. This consideration should also include the role of the FRC in measuring and reporting more broadly on audit quality, given its mandate to provide strategic advice on audit quality in Australia.

Terms of Reference #12: Any related matter

The AUASB has an evidence-informed standard setting strategy to ensure our standard-setting deliberations and decisions are informed by relevant and reliable evidence. Research of financial reports is important in our research activities, and could be enhanced if financial reports lodged with ASIC were in digital format, and access to these were free of charge to the AUASB and the AASB.