

25 May 2009

The Chairman  
Auditing and Assurance Standards Board  
PO Box 204  
Collins Street West  
MELBOURNE VIC 8007

Via email to: [edcomments@auasb.gov.au](mailto:edcomments@auasb.gov.au)

Dear Ms Kelsall

### Exposure Drafts (EDs)

**09/09: Proposed Auditing Standard ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports, Other Financial Information, and Other Assurance Engagements***

**10/09: Proposed Auditing Standard ASA 220 *Quality Control for an Audit of a Financial Report and Other Historical Financial Information***

Thank you for the opportunity to comment on these two AUASB Exposure Drafts. CPA Australia, The Institute of Chartered Accountants in Australia and the National Institute of Accountants (the Joint Accounting Bodies) have considered them and our comments follow. The Joint Accounting Bodies represent over 180,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

This letter is a response to both exposure drafts.

### ASQC 1

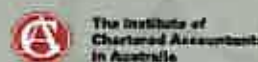
The Joint Accounting Bodies continue to hold our previously-stated view that there is no need for the AUASB to issue an Australian equivalent of ISQC 1 for the following reasons:

- > The current arrangements have operated effectively in the Australian regulatory environment and issuing a further quality control standard will impose unnecessary additional regulatory and compliance burdens on many firms.
- > The legal enforceability of current quality control arrangements may be satisfactorily addressed through the use of references in AUASB pronouncements. Issuing a separate standard on quality control for firms means that the AUASB has decided to approach the matter of legal enforceability of the two non-legislative standards issued by the Accounting Professional and Ethical Standards Board (APESB) (i.e., APES 110 *Code of Ethics for Professional Accountants* and the standard addressing *Quality Control for Firms*), differently. In the interests of public accountability and transparency, we believe there is merit in the Board clarifying why it has adopted a different approach to dealing with these two important non-legislative standards. Such clarification could be provided in a *Basis for Conclusions* document, Preface to the revised and redrafted standards, or media release.

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- > ISQC 1 is not considered by the International Auditing and Assurance Standards Board (IAASB) to be an auditing standard and hence it is our view that the AUASB would be fulfilling its mandate if it chose not to issue ASQC 1. Furthermore, the IAASB<sup>1</sup> recognises the need for it to provide flexibility in the manner in which ISQC 1 is adopted and applied. If the IAASB's logic is followed and ASQC 1 is considered not to be an auditing standard, it may well raise the question as to whether the AUASB should be issuing a standard on quality control in this way, given the powers conferred by the *Australian Securities and Investments Commission Act 2001*.

We acknowledge that the AUASB is concerned with aspects of the legal enforceability of the quality control standard and how it may apply to those individuals who are not members of the professional accounting bodies. It remains our view that the current method of referencing ethical pronouncements should be adequate for these purposes

We attach for your information copies of letters from the Joint Accounting Bodies setting out our views regarding this matter. These are:

- > Letter dated 22 August 2008 to Ms Kate Spargo, Chairperson, Accounting Professional and Ethical Standards Board
- > Letter dated 10 October 2008 to Mr Jeffrey Lucy, Chairman, Financial Reporting Council.

#### **ASA 220**

Our comments on ASA 220 are contained in the appendix to this covering letter.

Appendix 1 to this submission provides our detailed consideration of matters related to both the proposed ASQC1 and ASA 220.

The professional accounting bodies are committed to assisting where possible in the development and implementation of the highest quality Australian auditing and assurance standards. We hope that the comments provided are of assistance to the AUASB. If you have any questions regarding this submission, please do not hesitate to contact either Gary Pflugrath (CPA Australia) at 02 9375 6244, Andrew Stringer (Institute) at 02 9290 5566, or Tom Ravlic (NIA) at 03 8665 3143.

Yours sincerely



**Geoff Rankin**  
**Chief Executive Officer**  
**CPA Australia Ltd**



**Graham Meyer**  
**Chief Executive Officer**  
**Institute of Chartered Accountants**



**Andrew Conway**  
**Chief Executive Officer**  
**National Institute of Accountants**

Copy: Gary Pflugrath; Andrew Stringer; Tom Ravlic

<sup>1</sup> In its paper: *Basis for Conclusions: ISA 220 (Redrafted), Quality Controls for an Audit of Financial Statements and ISQC 1 (Redrafted), Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

## **Joint Accounting Bodies Response to Specific Questions**

We offer the following comments on the questions posed in the EDs.

**Have applicable laws and regulations been appropriately addressed in the proposed standard?**

We believe applicable laws and regulations have been appropriately addressed.

**Are there any references to relevant laws or regulations that have been omitted?**

We are not aware of any such omissions.

**Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard?**

We are not aware of any such situations.

**What, if any, are the additional significant costs to/benefits for auditors and the business community arising from compliance with the main changes to the Requirements of this proposed Auditing Standard? If there are significant costs, do these outweigh the benefits to the users of audit services?**

Being a new standard, all the requirements of ED 09/09 [ASQC 1] are new requirements, from the perspective of AUASB pronouncements. Feedback from our members suggests that smaller firms in particular perceive no benefits associated with the issue of ASQC 1. However, they do believe there may be increased costs related to the need to comply with two standards on quality control. From a quality review perspective, the professional accounting bodies note that additional costs may be associated with the need to review different parts of one firm using different standards. It is acknowledged however, that increased costs may only become apparent where differences exist between ASQC 1 and APES 320, and potentially different interpretations of their application arise.

We note that larger firms, and those which are part of an international network, generally perceive no additional costs associated with the need to comply with two standards, and will merely map their processes to the more stringent requirements, should differences between the standards arise.

In ED 10/09 [ASA 220] there are over 12 new or elevated requirements with which auditors must comply.

Our views on how the large number of new and elevated requirements may potentially increase costs for auditors and the business community have been expressed in our previous submission on EDs provided to the Board in our letter of 17 October 2008.

**Are there any other significant public interest matters that constituents may wish to raise?**

As stated previously, we do not believe it to be in the public interest to: change arrangements that to date have operated effectively in the Australian regulatory environment; and impose what may be seen as unnecessary additional regulatory and compliance burdens on many firms.

## **Other Matters**

There are several other matters to which we wish to draw the Board's attention.

Given that much of the wording in ED 09/09 [ASQC 1] and ED 10/09 [ASA 220] is identical, some of the specific comments made below relate to both exposure drafts.

## ED 09/09 and ED 10/09

### Definition of Professional Standards

Both international standards define "professional standards" to include relevant ethical requirements. Neither of the definitions provided in lieu of the definition of "professional standards" in these two exposure drafts ("AUASB Standards" in ED 09/09 [ASQC 1]; and "Australian Auditing Standards" in ED 10/09 [ASA 220]), includes such wording. Without the wording "and relevant ethical requirements" the Australian pronouncements appear to be less stringent in their coverage/application than the international equivalents, especially given the large number of references to this definition throughout the requirements in each of the standards.

We suggest therefore that the Board consider amending the definitions in the EDs to include the words "and relevant ethical requirements".

### Applicable Legal and Regulatory Requirements

The latest version of each of the international standards, available on the IFAC website, uses the term "applicable legal and regulatory requirements", whereas the exposure drafts use the expression "regulatory and legal requirements". These words appear throughout the requirements in each of the standards; they first appear in paragraph 11 of ED 09/09 [ASQC 1] and paragraph 6 of ED 10/09 [ASA 220]. While the word "applicable" may be implicitly understood in the wording used in the EDs, we suggest that the Board consider adopting the wording used in the international standards.

### Paragraph Aus 12.2 of ED 09/09 [ASQC 1] and Paragraph Aus 7.1 of ED 10/09 [ASA 220]

We understand that the definition of "assurance practitioner" is one that is taken from other AUASB pronouncements (e.g., ASAE 3000) but are concerned that the definition may be so broad as to unintentionally include persons and organisations who provide ancillary and/or unrelated services to an assurance practitioner or a firm (e.g., a computer technician or a facilities manager). We believe that this unintended consequence may arise as a result of the use of the words ".....involved in the provision of assurance services." It is not clear how "involved in" should be interpreted.

We suggest that the Board consider changing the wording of this definition to read:

" .....providing assurance services".

### Paragraph A10 of ED 09/09 [ASQC 1] and Paragraph A5 of ED 10/09 [ASA 220]

The example provided in both of these paragraphs for the definition of "firm" in APES 110 is not consistent with the definition shown in APES 110. It is consistent with the definition in the *IFAC Code of Ethics for Professional Accountants*, and is similar to the former (pre-30 June 2008) APES 110 definition, except for a reference to "an Auditor-General's office or department". The current definition, effective from 1 July 2008 (as stated in the "Definitions" section of APES 110), is more detailed.

We suggest the Board includes the current APES 110 definition in this paragraph.

## ED 09/09 (Proposed Auditing Standard ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports, Other Financial Information, and Other Assurance Engagements*)

### Title of Standard

As noted previously the IAASB does not consider ISQC 1 to be an auditing standard (it is not included in the group of standards it defines as "engagement standards"). The AUASB has taken a view contrary to that of the IAASB, in considering ASQC 1 to be an auditing standard.

We suggest that the AUASB explains the status of ASQC 1 to ensure that it is clearly evident why the Board has chosen to define the quality control standard in a manner which differs from that of

the IAASB. Alternatively, the Board may wish to consider changing the title of the standard. Consequential amendments throughout the standard would also be required to change wording from "This Auditing Standard" to "This Standard" or "This Standard on Quality Control", and so on.

#### **Paragraphs 4 to 9 (Authority of this Standard)**

Much of the content of these paragraphs describes how to read and apply the standard. Auditing standards generally do not include similar paragraphs. In the Australian context, most of this content is included in ASA 100 *Preamble to AUASB Standards*.

We suggest the Board consider whether these paragraphs are necessary should it decide to issue ASQC 1 as an auditing standard. The paragraphs may need to be retained however, if ASQC 1 is issued as a standard on quality control, and if ASA 100 (or ASA 101) does not apply to other than engagement standards.

#### **Paragraph 33**

The paragraph as written is internally inconsistent in that it identifies "less experienced team members" and "more experienced engagement team members". We therefore suggest that the word "engagement" be included between "less experienced" and "team". However, we understand that this is the wording used in ISQC 1, and therefore suggest that this comment be passed onto the IAASB.

We note that in ED 10/09 [ASA 220], paragraph A16 refers to paragraph 33 of ASQC 1. The wording used in each of these two paragraphs differs. The former paragraph does not include the word "engagement" before the word "team".

#### **Paragraph 44(b)**

This wording of this paragraph lacks clarity. It is assumed that the wording, "The report not be dated until the matter is resolved", is intended to mean that the date that is put onto the report cannot be earlier than the date on which the matter is resolved. If this is the intent, we suggest the Board consider wording to the effect:

"The date of the report cannot be earlier than the date on which the matter is resolved"

We understand that this is the wording used in ISQC 1, and therefore suggest that this comment be passed onto the IAASB.

#### **Paragraph A1**

The last sentence of this paragraph lacks clarity, in particular the words ".....are not relevant in the absence of staff". It seems that the standard is attempting to address the situation of a sole practitioner who does not employ staff. However, the wording of the paragraph implies that certain requirements may not be relevant when staff (in firms other than a sole practitioner) are absent.

We suggest the Board consider wording to the effect:

".....in the case of a sole practitioner, where no staff are employed"

We understand that this is the wording used in ISQC 1, and therefore suggest that this comment be passed onto the IAASB.

#### **Paragraph Aus A1.1**

It is possible that compliance with paragraphs 55 and 56 may not be relevant for assurance engagements conducted in the public sector by Auditors-General. That is, there may be legislative requirements that determine that certain complaints and allegations made against, about, or in relation to the practices of, an Auditor-General are investigated by persons or bodies outside of the Auditor-General's office.

We suggest the Board consider whether reference to paragraphs 55 and 56 should also be included in this paragraph.

### **Paragraph A3**

The paragraph appears to be lacking the word "less" between "and" and "extensive". We suggest that the word be included.

We understand that this is the wording used in ISQC 1, and therefore suggest that this comment be passed onto the IAASB.

### **Paragraph Aus A6.1**

This paragraph notes that the relevant ethical requirements, for the purposes of the standard are contained in APES 110. In contrast, the definition of "relevant ethical requirements" uses the expression "which ordinarily comprise Parts A and B of APES 110". It is not clear that these two paragraphs are consistent, given the absence of the word "ordinarily" in Aus A6.1.

We suggest the Board consider using consistent wording in these two paragraphs.

### **Paragraphs A12 to A14 – Familiarity Threats**

We suggest the Board include a reference to Division 3 of part 2M.4 of the *Corporations Act 2001* which deals with auditor independence, against the heading of the section that includes these paragraphs.

### **Paragraph A14**

Contrary to what is stated in this paragraph, APES 110 does not define "key audit partner". The "Definitions" section of APES 110 does however, include a definition of "Lead Engagement Partner".

Furthermore, APES 110 requires the rotation of the Lead Engagement Partner after a "pre-defined period, no longer than five financial years within a seven year period" (refer paragraph 290.154 of APES 110), rather than the "normally no longer than seven years" as described in this paragraph.

We suggest that the Board amend this paragraph to accord with the wording of APES 110.

### **Paragraph A42**

This wording of this paragraph lacks clarity. Similar to the comments made in relation to paragraph 44, to state that "The engagement report is not dated until the completion of the engagement quality control review" is assumed to mean that the date that is put onto the report cannot be earlier than the date on which the engagement quality control review is completed. If this is the intent, we suggest the Board consider wording to the effect:

"The date of the engagement report cannot be earlier than the date on which the engagement quality control review is completed"

We understand that this is the wording used in ISQC 1, and therefore suggest that this comment be passed onto the IAASB.

## **ED 10/09 (Proposed Auditing Standard ASA 220 Quality Control for an Audit of a Financial Report and Other Historical Financial Information)**

### **Definition of Professional Standards**

The definition of "professional standards" in ISA 220 includes only ISAs and relevant ethical requirements. This excludes ISQC 1 from the definition. In contrast, the definition of "Australian Auditing Standards" in ED 10/09 [ASA 220] means Australian Auditing Standards issued by the AUASB. As the AUASB intends to issue ASQC 1 as an auditing standard this definition includes ASQC 1. It is unclear whether this results in a more stringent requirement than that imposed by the international equivalent, and therefore whether the definition should be identified as an "Aus" paragraph.

We believe the Board should re-consider this definition to ensure that it complies with the definition provided in ISA 220. However, we note that should the Board determine to issue ASQC 1 as something other than an auditing standard, there would be no difference from the international standard in this part of the definition.

#### **Paragraph 21**

This paragraph includes wording additional to that shown in ISA 220. We suggest that the Board consider whether this paragraph should be shown as an "Aus" paragraph.

#### **Paragraph 24**

The latest version of ISA 220 available on the IFAC website includes a footnote reference to ISA 230 *Audit Documentation*. This reference has not been included in ED 10/09. We suggest that the Board consider adopting the wording used in the international standards.

#### **Paragraph A10**

The latest version ISA 220 available on the IFAC website includes different wording from that shown in ED 10/09. We suggest that the Board consider adopting the wording used in the international standards.

#### **Paragraph A16**

This paragraph refers to paragraph 33 of ASQC 1, but its wording differs from that used in ED 09/09 [ASQC 1]. Paragraph A16 does not include the word "engagement" before the word "team". We suggest that the word "engagement" be included between "experienced" and "team" in both the second and third lines of the paragraph. However, we understand that this is the wording used in the ISA, and therefore suggest that this comment be passed onto the IAASB.

#### **Paragraph A29**

It is not clear that this paragraph relates only to "smaller entities", or indeed that it serves any purpose by merely stating what is obvious.

We understand that this is the wording used in the ISA, and therefore suggest that the Board make a suggestion to the IAASB that it be deleted.





22 August 2008

Ms Kate Spargo  
Chairperson  
Accounting Professional & Ethical Standards Board  
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By email: [kspargo@bigpond.net.au](mailto:kspargo@bigpond.net.au)

### Quality Control Standard for Firms performing Audits and Assurance Engagements

Dear Ms Spargo,

We refer to the letter dated 8 August 2008 that you received from the Chairman of the Auditing and Assurance Standards Board (AUASB) advising you of the AUASB's decision to proceed with the adoption of the proposed "clarity" version of International Standard on Quality Control titled *Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements* (ISQC1).

The three professional accounting bodies are strongly opposed to such a development.

We can see no merit in changing the current arrangements regarding the preparation and promulgation of auditing, professional and ethical standards in Australia. We consider that these arrangements, whereby your Board issues a standard which addresses the quality control requirements for firms as a whole (ie APES 320 *Quality Control for Firms*), are effective in addressing the needs of practitioners, users of the services of professional accounting firms, and the public interest. We note that APES 320 has been carefully drafted to make sure that all the requirements of ISQC1 are incorporated into APES 320. In other words there is no reduction from the requirements that are imposed on auditing and assurance practices, and the public interest is safeguarded.

The reasons for being strongly opposed to this development include:

- From the viewpoint of our members, the current system has proved to be effective and efficient. There are no compelling reasons of which we are aware that suggest the need for any change to the current arrangements. Further, we have had no requests from practitioners suggesting that they would prefer to see the quality control requirements for audit and assurance practices set out in a standard that is separate from a standard for practices which do not undertake audit and assurance engagements
- If the AUASB plans to issue ISQC1 'as is', and since ISQC1 can be read as being applicable to an entire practice, one may question whether the AUASB's remit extends to mandating quality control procedures for the non-assurance parts of a practice
- Furthermore, if the AUASB was to issue a stand-alone Australian equivalent to ISQC1, the need for a quality control standard for professional accounting firms without an assurance practice, could well remain. Australia would then be in the undesirable position of having two separate quality control standards which would result in confusion for practitioners and the public and introduce the possibility of inconsistencies between the standards that would not otherwise occur. Further,

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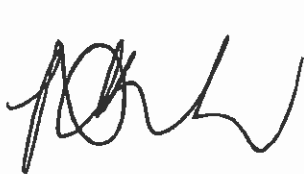


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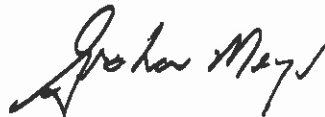
- having multiple versions of a similar standard is contrary to the push towards the internationalisation of standards. This would paint us as an overly regulated environment, which is not the view we want to portray at all from the perspective of international competitiveness and as an attractive investment climate
- We cannot see how the public interest is served by having two standards and imposing unnecessary additional compliance obligations on practitioners, especially when the current system works very well. The introduction of a separate Australian equivalent to ISQC1 has the potential to create the environment for a two-tier quality control framework, which we see as an undesirable outcome, and which would result in confusion for the public
- We believe it is undesirable to have the two components of quality control issued by different Boards. Different practices would therefore have their quality control frameworks subject to different standards promulgated by two Boards – one for practices undertaking audit and assurance engagements, and the other for practices which do not engage in audit and assurance. The proposal should be subject to a cost benefit analysis, on which grounds we believe it would fail
- The current APES 320 is central to the professional accounting bodies' quality review programs, which themselves are crucial to the bodies' role in the co-regulatory environment
- An argument the AUASB presents in its letter to you is that they see ISQC1 and ISA 220 *Quality Control for an Audit of Financial Statements* as being "inextricably linked". In our view this logic is flawed, as one may well make the same case for ISQC1 and the Code of Ethics (issued internationally by the International Ethics Standards Board and in Australia by the APESB), since ISQC1 contains the statement in paragraph 1 that "This ISQC is to be read in conjunction with Parts A and B of the IFAC Code of Ethics for Professional Accountants".

To reiterate, the professional accounting bodies are strongly opposed to the suggestion that the AUASB issue a separate, stand-alone Australian equivalent to ISQC1. We would be happy to discuss this further should you wish.

Yours sincerely



**Geoff Rankin**  
**Chief Executive Officer**  
**CPA Australia Ltd**



**Graham Meyer**  
**Chief Executive Officer**  
**Institute of Chartered Accountants**



**Roger Cotton**  
**Chief Executive Officer**  
**National Institute of Accountants**

cc Channa Wijesinghe, Senior Project Manager, APESB  
 channa.wijesinghe@apesb.org.au

10th October 2008

Mr Jeffrey Lucy AM  
Chairman  
Financial Reporting Council  
c/o The Treasury  
Corporations and Financial Services Division  
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By email: [chairman@frc.gov.au](mailto:chairman@frc.gov.au)

### Quality Control Standard for Firms performing Audits and Assurance Engagements

Dear Jeffrey

We refer to the Auditing and Assurance Standards Board's (AUASB's) stated intention to issue an Australian equivalent of the proposed "clarity" version of International Standard on Quality Control titled *Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements* (ISQC1), issued by the International Auditing and Assurance Standards Board (IAASB).

The Accounting Professional and Ethical Standards Board (APESB) currently issues a standard which addresses the quality control requirements for firms as a whole (ie APES 320 *Quality Control for Firms*). We note that APES 320 has been carefully drafted to make sure that all the requirements of ISQC1 are incorporated into APES 320. In other words the current Australian standard imposes quality control obligations on auditing and assurance practices that are at least the equal of ISQC1. There is no reduction from these requirements, and the public interest is safeguarded.

We consider that the current arrangements are effective in addressing the public interest, users of the services of professional accounting firms, and the needs of practitioners.

We also draw to your attention that none of the standard-setting boards of the International Federation of Accountants currently issue a quality control standard that deals with the quality control requirements of non-assurance practices.

Should the AUASB issue a stand-alone Australian equivalent to ISQC1, the need for a quality control standard for professional accounting firms without an assurance practice would remain. Australia would then be in the undesirable position of having two separate quality control standards, resulting in confusion for practitioners and the public and introducing the possibility of inconsistencies between the standards that would not otherwise occur.

The three professional accounting bodies are committed to the public interest. It remains unclear to us how the AUASB's proposal is in the public interest.

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We are aware that this matter was discussed at the last meeting of the AUASB on 9 September 2008, during the course of which it became evident that the Board is, rightly, concerned to ensure that it fulfils what it sees as its obligation to issue Australian equivalents to every standard issued by the IAASB.

However, we are not aware of an explicit obligation imposed on the AUASB to do so. For convenience and ease of reference, attached to this letter are extracts of relevant sections of the ASIC Act which set out the specific auditing standards functions of the FRC, as well as the AUASB's functions and powers.

Further, the FRC's Strategic Direction dated 6 April 2005 (extracts attached) contains no explicit requirement for the AUASB to issue an Australian equivalent for each IAASB standard. Rather, the direction is to issue Australian Auditing Standards that have a clear public interest focus of the highest quality and to use the International Auditing Standards as a base from which to develop Australian Auditing Standards.

It has also been suggested that failure to have the AUASB issue an Australian equivalent to ISQC1 would lead to Australia being out of step with other major jurisdictions. However, we are aware that, for example, New Zealand regards quality control as a professional standard applicable to both assurance and non-assurance engagements, as does the USA, where the American Institute of Certified Public Accountants issues a quality control standard that applies to firms as a whole.

The three professional accounting bodies are all members of the International Federation of Accountants (IFAC), which requires member bodies to use best endeavours to ensure that the pronouncements of all IFAC standard-setting boards are implemented in their jurisdiction. We are satisfied that the current Australian standard-setting arrangements accomplish this objective.

We reiterate some of the other reasons why the three professional accounting bodies are of the view that we are unable to support this development, which were included in a letter the professional bodies addressed to Ms Kate Spargo, Chairperson of the APESB on 22 August 2008:

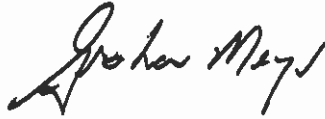
- We believe it is undesirable to have the two components of quality control issued by different Boards. Different practices would therefore have their quality control frameworks subject to different standards promulgated by two Boards – one for practices undertaking audit and assurance engagements, and the other for practices which do not engage in audit and assurance. The proposal should be subject to a cost benefit analysis, on which grounds we believe it would fail
- Further, having multiple versions of a similar standard would be contrary to the push towards the internationalisation of standards and would paint us as an overly regulated environment. This is not the view we would wish to portray from the perspective of international competitiveness and as an attractive investment destination
- We are of the view that the current system has proved to be effective and efficient. There are no compelling reasons of which we are aware that suggest the need for any change to the current arrangements, nor have there been any requests to change these arrangements
- The current APES 320 is central to the professional accounting bodies' quality review programs, which themselves are crucial to the bodies' role in the co-regulatory environment
- The AUASB has suggested that it sees ISQC1 and ISA 220 *Quality Control for Audits of Historical Financial Information* as being "inextricably linked". One may well make the same case for ISQC1 and the *Code of Ethics* (issued internationally by the International Ethics Standards Board and in Australia by the APESB), since ISQC1 contains the statement in paragraph 1 that "This ISQC is to be read in conjunction with Parts A and B of the IFAC *Code of Ethics for Professional Accountants*".

It remains unclear how the public interest would be served should the AUASB issue a separate, stand-alone Australian equivalent to ISQC1. We would be happy to discuss this further should you wish.

Yours sincerely



**Geoff Rankin**  
**Chief Executive Officer**  
**CPA Australia Ltd**



**Graham Meyer**  
**Chief Executive Officer**  
**Institute of Chartered Accountants**



**Roger Cotton**  
**Chief Executive Officer**  
**National Institute of Accountants**

s225 of the ASIC Act

## **Functions and powers of the Financial Reporting Council**

### **Functions generally**

(1) *The FRC functions are:*

- (a) *to provide broad oversight of the processes for setting accounting standards in Australia; and*
- (b) *to provide broad oversight of the processes for setting auditing standards in Australia; and*
- (c) *to monitor the effectiveness of auditor independence requirements in Australia; and*
- (d) *to give the Minister reports and advice about the matters referred to in paragraphs (a), (b) and (c); and*
- (e) *the functions specified in subsections (2) (specific accounting standards functions), (2A) (specific auditing standards functions) and (2B) (specific auditor independence functions); and*
- (f) *to establish appropriate consultative mechanisms; and*
- (g) *to advance and promote the main objects of this Part; and*
- (h) *any other functions that the Minister confers on the FRC by written notice to the FRC Chair.*

*Note: The FRC was established by subsection 225(1) of the Australian Securities and Investments Commission Act 1989 and is continued in existence by section 261 of this Act.*

### **Specific accounting standards functions (detail omitted)**

#### **Specific auditing standards functions**

(2A) *The FRC functions include:*

- (a) *appointing the members of the AUASB (other than the Chair); and*
- (b) *giving the AUASB advice or feedback on the AUASB's:*
  - (i) *priorities; and*
  - (ii) *business plans; and*
  - (iii) *procedures; and*
- (ba) *giving the Office of the AUASB advice or feedback on the Office's:*
  - (i) *budgets; and*
  - (ii) *staffing arrangements (including level, structure and composition of staffing); and*
- (c) *determining the AUASB's broad strategic direction; and*
- (e) *monitoring the development of international auditing standards and the auditing standards that apply in major international financial centres; and*
- (f) *furthering the development of a single set of auditing standards for world-wide use with appropriate regard to international developments; and*
- (g) *promoting the continued adoption of international best practice auditing standards in the Australian auditing standard setting processes if doing so would be in the best interests of both the private and public sectors in the Australian economy; and*
- (h) *monitoring:*
  - (i) *the operation of auditing standards to assess their continued relevance and their effectiveness in achieving their objectives in respect of both the private and public sectors of the Australian economy; and*
  - (ii) *the effectiveness of the consultative arrangements used by the AUASB; and*

### **Remaining subsections – detail omitted**

s227B of the ASIC Act

## **AUASB's functions and powers**

### **Functions**

(1) *The functions of the AUASB are:*

- (a) *to make auditing standards under section 336 of the Corporations Act for the purposes of the corporations legislation; and*
- (b) *to formulate auditing and assurance standards for other purposes; and*
- (c) *to formulate guidance on auditing and assurance matters; and*
- (d) *to participate in and contribute to the development of a single set of auditing standards for world-wide use; and*
- (e) *to advance and promote the main objects of this Part.*

*Note 1: The standards made under paragraph (a) are given legal effect by the Corporations Act. The standards formulated under paragraph (b) do not have legal effect under the Corporations Act itself but may be applied or adopted by some other authority.*

*Note 2: See section 224 and sections 234A to 234D for the framework within which the AUASB is to formulate and make auditing standards.*

### **Power to establish committees etc.**

(2) *The AUASB has power to establish committees, advisory panels and consultative groups.*

### **Manner of making and formulating standards**

- (3) *Without limiting paragraph (1)(a) or (b), the AUASB may make or formulate an auditing standard by issuing the text of an international auditing standard.*
- (4) *The text of the international auditing standard may be modified to the extent necessary to take account of the Australian legal or institutional environment.*

### **Manner of participating in the development of international standards**

- (5) *Without limiting paragraph (1)(d), the AUASB may distribute the text of a draft international auditing standard (whether or not modified to take account of the Australian legal or institutional environment) for the purposes of consultation.*

## **FRC's Strategic Direction**

This Direction, dated 6 April 2005 contains no explicit requirement for the AUASB to issue an Australian equivalent for each IAASB standard. The emphasis in this document is:

- (a) The AUASB should develop Australian Auditing Standards that have a clear public interest focus and are of the highest quality
- (b) The AUASB should use, as appropriate, International Standards on Auditing of the IAASB as a base from which to develop Australian Auditing Standards
- (c) The AUASB make such amendments to the International Standards on Auditing as necessary to accommodate and ensure that the Australian Auditing Standards both exhibit and conform with the Australian regulatory environment and statutory requirements, including amendments as necessary for Australian Auditing Standards to have the force of law and be capable of enforcement under the requirements of the Corporations Act 2001 by 30 June 2006
- (d) The process of developing Australian Auditing Standards should include monitoring and reviewing auditing and assurance standards issued by other standard setting bodies in other national jurisdictions and considering other matters relevant to achieving the objectives of Part 12 of the ASIC Act. Consequently, where appropriate and considered to be in the public interest and necessary to producing standards of the highest quality, the AUASB should incorporate additional requirements into its Australian Auditing Standards
- (e) The AUASB should continue to develop auditing and assurance standards other than for historical financial information as well as developing and issuing guidance on auditing and assurance matters, and may participate in audit research that is conducive to, and which significantly benefits, the standard-setting activities of the AUASB.

In addition, the AUASB should have regard to any programme initiated by the IAASB for the revision and enhancement of ISAs and make appropriate consequential amendments to Australian Auditing Standards.