
CLEARER TRANSPARENCY

Assessing the second year of Audit Firm Transparency
Reports in Australia June 2015



CHARTERED ACCOUNTANTS
AUSTRALIA + NEW ZEALAND





CHARTERED ACCOUNTANTS
AUSTRALIA + NEW ZEALAND

Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand is made up of over 100,000 diverse, talented and financially astute professionals who utilise their skills every day to make a difference for businesses the world over.

Members of Chartered Accountants Australia and New Zealand are known for professional integrity, principled judgement, financial discipline and a forward-looking approach to business.

We focus on the education and lifelong learning of members, and engage in advocacy and thought leadership in areas that impact the economy and domestic and international capital markets.

We are a member of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

Copyright © May 2015 Chartered Accountants Australia and New Zealand. All rights reserved.

DISCLAIMER This document was prepared by Chartered Accountants Australia and New Zealand. The information in this document is provided for general guidance only and on the understanding that it does not represent, and is not intended to be, advice. Whilst care has been taken in its preparation, it should not be used as a substitute for consultation with professional accounting, tax, legal or other advisors. Before making any decision or taking any action, you should consult with an appropriate specialist or professional.

Chartered Accountants Australia and New Zealand ABN 50 084 642 571 (CA ANZ).

ABOUT THE AUTHORS

LIZ STAMFORD FCA

Audit and Insolvency Leader

Chartered Accountants Australia and New Zealand

liz.stamford@charteredaccountantsanz.com

Liz is the Audit & Insolvency Leader at Chartered Accountants Australia and New Zealand. Liz is responsible for leading policy and advocacy work in the audit and assurance areas to enhance public confidence in the auditing profession.

As a Chartered Accountant, Liz has many years of experience working in the United Kingdom, United States of America and Australia.

ROSEMARY KING FCA

Senior Policy Adviser

Chartered Accountants Australia and New Zealand

rosemary.king@charteredaccountantsanz.com

Rosemary is a Senior Policy Adviser in the Reporting and Assurance area of Thought Leadership & Policy. Rosemary advocates on behalf of the members on Financial Reporting and Audit and Assurance issues and answers technical queries. She has many years of experience working in practice and education in both the United Kingdom and Australia.

CONTENTS

05

MEETING THE NEED: WHY WE
EXAMINED TRANSPARENCY REPORTS

06

DRIVERS OF AUDIT QUALITY

08

MONITORING AND MEASURING

09

AREAS IDENTIFIED AS
REQUIRING IMPROVEMENT

10

THE FUTURE OF TRANSPARENCY
REPORTING

11

APPENDIX 1: THE MINIMUM
REQUIREMENTS: EXTRACTS FROM
ASIC INFORMATION SHEET 184

13

APPENDIX 2: LIST OF AUDIT FIRMS
PUBLISHING A TRANSPARENCY
REPORT FOR 2014

14

EXAMPLE TRANSPARENCY
REPORT

16

MADE-UP FIRM TRANSPARENCY
REPORT JUNE 2015

MEETING THE NEED: WHY WE EXAMINED TRANSPARENCY REPORTS

2014 was the second financial year that auditors of 10 or more significant entities such as listed companies, listed registered schemes, authorised deposit-taking institutions, and insurance companies were required by the Corporations Act to publish Transparency Reports on their websites. Twenty eight Australian audit firms published these reports which contain information designed, in the words of ASIC Information Sheet 184, to *“help to inform the market about audit firms and audit quality.”*

Are they achieving this objective?

We examined the wealth of information contained in the 2014 Transparency Reports to assess potential indicators of audit quality. We wanted to show how firms are implementing innovative actions to achieve continuous improvement in audit quality. We also wanted to highlight how these reports could be used to showcase these positive actions and distinguish the firms on quality, rather than being seen as just another mandatory compliance exercise.

WHAT WE LOOKED FOR

We wanted to find examples where firms had described the amount and type of work they do to continuously improve audit quality. Specifically, we looked for:

1. evidence of firms addressing recognised drivers of audit quality as set out in the Framework for Audit Quality developed by the International Auditing and Assurance Standards Board (IAASB)
2. how firms are monitoring and measuring their progress on improving audit quality, and whether this included use of quality metrics or indicators
3. evidence of firms addressing the areas identified as requiring improvement during internal and external reviews, including those conducted by ASIC.

We also looked at how the firms had structured their reports. Each report followed the order of the list of requirements as set out in the Corporations Act. We have included an example report in Appendix 3 which demonstrates how a different structure could be used to communicate information about audit quality.

ASIC's requirements for the transparency report are included in Appendix 1, and a list of the firms that prepared Transparency Reports for 2014 is set out at Appendix 2.

NOTE: This paper does not include an assessment of whether any statements made by firms in their reports are factually accurate, nor does it purport to give any assessment on individual firm reports.

WHAT WE FOUND

While all the reports met the prescribed information requirements, the larger network firms tended to go beyond the minimum requirements by including examples of actions taken to improve audit quality, internal indicators of audit quality, or findings from external and internal reviews.

We identified that there were opportunities to communicate key quality messages more effectively or clearly through considering the structure and users of the reports.

DRIVERS OF AUDIT QUALITY

The requirement to include a description of the firm's quality control system was satisfied in most reports by a basic description following the framework set out by ASQC 1 and APES 320. A number of the larger firms also presented their own frameworks of audit quality. None of the Transparency Reports referred specifically to the five separate elements of the IAASB's Audit Quality Framework, although a number had obviously spent many resources on developing their processes and many of the elements or drivers closely resembled or were similar to those in the IAASB framework.

The IAASB Audit Quality Framework recognises that the quality of an audit is influenced by many aspects. It identifies five elements linked to audit quality:

1. **Inputs** – the values, ethics, knowledge, skills and experience of audit partners and staff
2. **Processes** – the methodology, tools and control procedures set up by the audit firm
3. **Outputs** – the reports flowing from the audit: primarily the audit report, but also the communications with directors, management and audit committee throughout the audit
4. **Interactions** – the way others react and respond to the auditor; for example whether information is provided on a timely basis and explanations are open and frank
5. **Context** – the business, legal, regulatory and IT environment; for example whether authorities enforce financial reporting and audit standards as they are written; whether directors and management has clear, enforceable responsibilities in relation to financial reporting; whether there is a culture of litigation in the country; etc.

INPUTS

When discussing drivers of audit quality, the reports dealt with inputs such as the assignment of audit partners and staff members with deep understanding of the client's risks and industry. Many also cited the skills and personal qualities of partners and staff as critical factors. Some reports described training techniques introduced to ensure partners and staff acquire the desired knowledge and skills.

An example of one firm's commentary on inputs

We are tapping into the popularity of online gameplay by using gamification techniques in the development of learning modules. Serious content, but delivered in an engaging environment for today's professional.

PwC

PROCESSES

The firms' audit processes were described in varying levels of detail. Some of the larger firms had recently implemented new global audit technology platforms. Some described how confirmations and other traditionally manual audit activities were being centralised and automated, enabling increased focus on matters of higher risk.

An example of one firm's commentary on processes

A quality audit relies on a balance between effectiveness and efficiency. Efficient doesn't mean cutting corners. It means cutting complexity by planning the audit, leveraging technology, tools and templates and enhancing behaviours that drive audit quality and efficiency. To allow audit teams to focus on key audit judgements we optimise onshore and offshore processes in performing the audit.

KPMG

OUTPUTS

The output mentioned by most reports was the audit report. However, some firms also discussed the importance of regular reporting to management and those charged with governance.

An example of one firm's commentary on outputs

Given open communication is a key foundation to the William Buck audit methodology, it takes place continuously such that management and those charged with governance are kept up to date with progress and there are no surprises.

William Buck
.....

INTERACTIONS

The importance of professional scepticism during interactions between auditors and management was highlighted in seven of the reports.

Professional Scepticism

It was clear from the reports that professional scepticism is considered critical to audit quality. Firms described how they incorporated practical activities using real-life experiences into their training curriculums to strengthen this mindset. Others talked about incorporating professional scepticism into their audit processes. One firm explained how their professional judgement process enhances every individual's ability to exercise their professional scepticism:

An example of one firm's commentary on professional judgement to illustrate interactions

Using the professional judgement process helps us draw the right conclusions by providing structure to considering and documenting the issues which need to be solved ... includes ways to mitigate the effects of judgement traps and biases which may cloud our judgement.

KPMG
.....

Other firms said they promoted making professional scepticism a daily habit. For example, professional scepticism ('people with a questioning mind') is one of the five principles to be considered in 'Take 5' – the five minutes that BDO staff and partners are asked to spend each day on considering audit quality.

An example of one firm's commentary on professional scepticism as part of interaction

To continue supporting and promoting quality and exceptional client service at BDO Australia, we developed and launched "Take 5!" which aims to encourage all partners and staff to take five minutes each day to consider what drives quality and exceptional client service, and how the five principles covered by the campaign impact their day to day duties within BDO and when interacting with our clients.

BDO
.....

CONTEXTUAL FACTORS

Three reports acknowledged the role of contextual factors in influencing audit quality, such as certain corporate governance processes and the legal and regulatory environment.

An example of one firm's commentary on contextual factors

The quality of a client's corporate governance and the robustness of its financial reporting systems are critical to audit quality ... The changing audit regulatory environment also has a clear impact on audit quality.

Grant Thornton
.....

NUMBER CRUNCH

Reports varied in length from 13 to 41 pages.

MONITORING AND MEASURING

As it is a requirement of ASQC 1 to conduct quality reviews, all of the reports included a description of monitoring processes. Engagements were selected for review on a risk-based approach emphasising audit clients that were large, complex or of significant public interest. Every audit partner is reviewed at least every three years in accordance with ASQC 1. Only a few firms communicated their quality review results in the reports.

An example of one firm's commentary on quality review results

In 2014 97% of the engagements inspected internally by EY Australia were rated as having no material findings or deficiencies. In 2013 the result was 100%.

EY

While some described how any deficiencies would be acted on.

An example of one firm's commentary on how deficiencies are dealt with

Partners receiving ratings below a certain level have additional engagements selected for review and are automatically reviewed the following year.

Deloitte

We were interested to see whether the reports included quantitative measures of audit quality as this has been an area of much discussion over the last year with some UK firms experimenting with including such measures in their reports.

ASIC Information Sheet 184 notes that if measures are used, they should be presented on a comparable basis from year to year. It also asks that reports highlight why the measures were considered appropriate, and any limitations of those measures. Examples of limitations include the fact that measures typically provide information relating to only one aspect of achieving quality audits, but there are many factors affecting audit quality.

Few firms included explicit indicators to measure audit quality in their Transparency Report. Those that were reported included:

- average number of years' experience per audit staff member and partner
- number of learning and development days or hours offered to or undertaken by staff and partners
- percentage of partners involved in internal training programs
- number of partners and staff subject to an independence compliance audit.

One firm's report stated that it is developing a tool to measure audit quality through a set of indicators such as quality support, resourcing, education and development, audit review results and portfolio composition. Another firm commented on the general difficulties associated with measuring audit quality including the difficulties in defining the terms and unintended consequences if managing to particular numbers or benchmarks.

None of the reports explained specifically why any of the measures used internally were considered appropriate nor provided other supporting information of the type suggested by in the ASIC Information Sheet.

AREAS IDENTIFIED AS REQUIRING IMPROVEMENT

A number of firms referred to the general areas for improvement identified by ASIC in its public inspection programs – that is:

- the sufficiency and appropriateness of audit evidence obtained by the auditor
- the level of professional scepticism exercised by auditors
- the extent of reliance that can be placed on the work of other auditors and experts.

The six largest firms also referred to their action plans developed in response to ASIC's request following the release of the 2012 ASIC Inspection Program Report. It was not usual for firms to set out any specific areas for improvement that ASIC may have raised in their private inspection reports to the firms and indeed this would not be expected. One firm made some comment on specific matters and explained how it responded.

This firm had received feedback that it needed to improve the documented evidence supporting the appropriateness and completeness of the client's impairment model in certain audits. The firm responded by undertaking an intensive root cause analysis with audit practitioners, accounting and valuations specialists and representatives from ASIC.

An example of one firm's commentary on how it responded to ASIC's private report

The findings of our analysis led us to establish an Impairment Specialist Group (ISG) to devise best practice methods for embedding quality into every aspect of the audit process specific to impairment. Tangible outputs of the ISG include new tools that assist in scoping the work of valuation experts, joint (internal) impairment training sessions and enhanced knowledge sharing practices.

PwC

One firm cited instances of not achieving full adherence to firm policies and processes. The firm had identified a failure by individuals to enter or update their investments into the investments tracking system. This issue was discovered as a result of internal compliance testing.

One firm's commentary on how it responded to results of internal compliance testing

Whilst no instance breached the Corporations Act 2001, they were contrary to firm policy, and were remedied and referred to the Ethics and Independence Disciplinary Committee, resulting in, depending on the circumstances, either a cautionary or disciplinary letter.

KPMG

CONTENT AND GENERAL STRUCTURE

Almost all the reports followed the order set out in the ASIC Information Sheet 184, putting the prescribed information first in the document. This can have the effect of making the reports top-heavy with regulatory and administrative information, forcing readers to search through the document for the substantive content about audit quality. While all the prescribed information should be given appropriate prominence, consideration may be given to describing those aspects of audit quality which speak loudest in the minds of users upfront.

We suggest that firms need not feel constrained about how they order and present the different elements of their report. We have included an example Transparency Report for a fictitious firm which starts with a more direct statement about managing quality.

NUMBER CRUNCH

Together the 28 audit firms audited 2,193 listed entities.

We also noted that most firms took seriously the Information Sheet's recommendation that the Transparency Reports did not become marketing documents. For the most part the text explained each firm's quality systems. We encourage firms to continue to resist the temptation to treat their reports as glossy marketing documents while still communicating the extent of work and process undertaken in relation to audit quality.

CONCLUSION: 2014 REPORTS

Overall, we were impressed with the content and presentation of the reports, and believe they offer a valuable contribution to the market.

THE FUTURE OF TRANSPARENCY REPORTING

We believe an opportunity exists to improve the usefulness of the Transparency Reports. There is scope for these reports to be used in dialogue with audit committees. We note with interest that ASIC Information Sheet 196 encourages audit committee dialogue on audit quality. Transparency Reports can be a useful framework for these discussions.

Well-structured reports will assist those responsible for selecting an audit firm to look to the Transparency Report as an indication of the focus placed on audit quality by the different firms.

But to achieve this, the approach may need to become less compliance focused and concentrate more on effective communication.

Overseas experience leads us to believe that Transparency Reports have the potential to become more of a client communication tool in the future. In the UK, where Transparency Reports have been mandatory for certain audit firms since 2008, this seems to be the direction.

...the approach may need to become less compliance focused and concentrate more on effective communication.



If you can't
EXPLAIN IT SIMPLY,
you don't understand
it well enough.

ALBERT EINSTEIN

APPENDIX 1: THE MINIMUM REQUIREMENTS: EXTRACTS FROM ASIC INFORMATION SHEET 184

INFORMATION THAT MUST BE INCLUDED IN A TRANSPARENCY REPORT

Prescribed information for all auditors that are required to publish Transparency Reports.

The report must include:

- if the auditor belongs to a network, a description of:
 - the network
 - the legal arrangements of the network
 - the structural arrangements of the network
- a description of the auditor's internal quality control system
- a statement that sets out the auditor's independence practices in the relevant reporting year
- the name of each body that is authorised to review the auditor (e.g. ASIC or a professional accounting body) and the date of the most recent review of the auditor conducted by the body
- the names of the relevant bodies in section 322 of the Corporations Act for which the auditor conducted an audit under Div 3 of Pt 2M.3 in the relevant reporting year
- financial information for the auditor that relates to the relevant reporting year, including:
 - total revenue
 - revenue relating to audits of financial statements conducted by the auditor and other services provided by the auditor.
- For audit firms or authorised audit companies, the report must also include:
 - a description of the firm or company's:
 - legal structure
 - ownership
 - governance structure
 - a statement by the firm's administrative body or management body (or the company's board of directors) on the effectiveness of the functioning of the internal quality control system in the relevant reporting year
 - the date on which the firm or company most recently conducted an internal review of its independence compliance
 - a statement about the firm or company's policy on the minimum amount and nature of continuing or other professional education that professional members of an audit team must undertake during the relevant reporting year
 - information about the basis for remuneration of the firm's partners or the company's directors.

ADDITIONAL INFORMATION THAT MAY BE INCLUDED IN A TRANSPARENCY REPORT

<p>Network policy monitoring</p>	<p>If the auditor belongs to a network, the report may include information about the degree to which the network sets policy and monitors compliance and structural arrangements in the network, including the degree of authority the network has over the audit firm.</p>
<p>Actions to improve and maintain audit quality</p>	<p>The report may include information about how the auditor (for example):</p> <ul style="list-style-type: none"> • promotes, evaluates and monitors professional scepticism and compliance with auditing standards • promotes a culture of audit quality (e.g. messages from leadership focusing on audit quality, education initiatives, key focuses in quality reviews, and encouragement of consultation on complex audit issues) • ensures that partners/directors, staff and experts with appropriate experience and expertise are assigned to audit engagements having regard to, for example, workload, technical competence, and audit, industry and other relevant experience • approaches supervision and review, including the extent of partner/director involvement in working with audit teams in the planning and execution of audits, and the extent of real-time or post-completion quality reviews of engagements • holds partners/directors and leadership accountable for audit quality, including how performance is measured on audit quality, how such performance is assessed, and the extent to which this affects remuneration.
<p>Internal indicators of audit quality</p>	<p>The report may include indicators of audit quality used by the firm. However, if quantitative input measures of audit quality are referred to in a transparency report, the reasons why those measures are considered appropriate, the impact of measuring each particular aspect of audit quality, any limitations of those measures, and the results of applying such measures should be provided. Limitations might include matters such as:</p> <ul style="list-style-type: none"> • the measures do not directly measure the quality of the audits performed • a measure typically provides information relating to only one aspect of the inputs to achieving quality audits and there are many factors affecting audit quality • different quantitative results for a particular measure may be appropriate in different circumstances (e.g. different partner-to-staff ratios may be appropriate depending on factors such as the nature, size and complexity of audit engagements). <p>Note: Measures should be presented on a comparable basis from year to year. If the auditor chooses to discontinue, amend or replace any measure previously included in a transparency report, the previous measure should generally also be included with the reasons for the change.</p>
<p>Findings from ASIC Inspections</p>	<p>The report may include the firm's actions to address overall themes about the quality of audits at firms generally, as identified in the most recent public audit firm inspection report issued by ASIC. For example, the overall themes in Report 317 Audit inspection program report for 2011-12 (REP 317) concerned the sufficiency and appropriateness of audit evidence, the application of professional scepticism, and the extent of reliance that can be placed on experts and other auditors. REP 317 also referred to the consistency of audit execution.</p>
<p>Findings from external reviews</p>	<p>The report may include areas for improvement derived from reviews by other relevant external bodies on audit quality – for example:</p> <ul style="list-style-type: none"> • significant recommendations to improve education, quality control, auditor independence, compliance with auditing standards, professional scepticism, sufficiency and appropriateness of audit evidence, the use of and reliance on experts and other auditors, and other matters • remedial actions undertaken by the auditor in response to the review. Generally, a report should not refer to the external review or the source of the areas for improvement. The permission or consent of any external body should be obtained before specifically referring in the transparency report to a review by an external body. Any limitations in the scope of the external body's review should be stated in the report.

APPENDIX 2: LIST OF AUDIT FIRMS PUBLISHING A TRANSPARENCY REPORT FOR 2014

• BDO ECP (Syd, Melb)	• Moore Stephens Australia (Perth)
• BDO Audit Pty Ltd (Brisbane)	• Moore Stephens Australia (Sydney)
• BDO Perth	• Moore Stephens Australia (Melbourne)
• Bentleys WA	• Nexia WA
• Crowe Horwath WA	• Nexia Court & Co (Sydney)
• Deloitte	• Pitcher Partners Brisbane
• Ernst & Young	• Pitcher Partners Melbourne
• Grant Thornton SA Partnership	• PFK Hacketts – 2014 (note: Known as Lawler Hacketts – 2013)
• Grant Thornton Australia	• PFK Mack & Co WA
• Hall Chadwick NSW	• PricewaterhouseCoopers
• HLB Mann Judd NSW	• Rothsay Chartered Accountants
• HLB Mann Judd WA	• RSM Bird Cameron Partners
• KPMG	• Somes & Cooke
• KS Black & Co	• William Buck VIC

EXAMPLE TRANSPARENCY REPORT

The following example is provided solely to demonstrate how a different structure could be utilised. Neither the content nor structure are presented as “best practice”. This example is merely an illustration of a potential option.

Other options might be to structure the report around the elements of the IAASB’s quality framework or to follow a “drivers/monitoring/improvements” framework.

The matters reported and example statistics used in this example are included as matters of potential relevance to this made-up firm. Reports should be tailored for the specific circumstances of each individual firm. As such these matters and statistics may not be of relevance to other firms. Matters such as size and complexity of audit clients, the availability of internal specialists, or the initiatives used by firms to manage audit quality will be different for each firm and therefore the matters reported will be different for different firms.





MADE-UP FIRM TRANSPARENCY REPORT

June 2015



Made-Up Firm is pleased to present its 2015 transparency report, as required by the Corporations Act. We hope this report will help inform the market about our work and how we implement and monitor audit quality.

MANAGING QUALITY

The quality of our work is paramount to our professional pride and integrity. In the audit practice we manage consistent quality by:

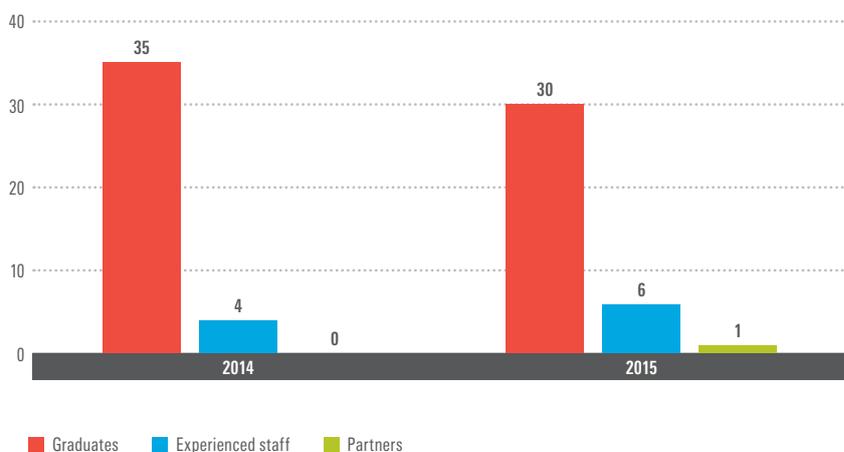
HIRING THE RIGHT STAFF

The majority of our staff are degree-qualified chartered accountants. This means they have the intellectual ability to understand and apply complex legislation in accounting and auditing standards, have the training to understand business and economic environments, and have been immersed in the importance of the professional code of conduct. We also aim to recruit individuals with personal values that align with the firm's values, which are:

- to act with professional integrity
- to respect each other and our clients
- to encourage innovation and enthusiasm in everything we do.

Part of our recruitment practice includes psychological testing to assess a candidate's aptitude.

FIGURE 1: NEW HIRES INTO THE AUDIT PRACTICE IN YEAR TO 2015



ACTING OBJECTIVELY AND ETHICALLY

We adopt and follow detailed and extensive independence rules, covering financial, business and personal relationships. These supplement the professional code of conduct and mean the quality of our work is carried out with objectivity. Specifically, all partners and staff are expected to be fully conversant with APES 110 and other professional statements issued by the Accounting Professional and Ethical Standards Board (APESB), Auditing and Assurance Standards Board (AUASB), Chartered Accountants Australia and New Zealand, the independence requirements set out in the Corporations Act, and the firm’s own independence and ethical processes.

In addition to understanding these rules and codes for personal independence, objectivity and ethics, every partner and staff member also takes these aspects into consideration when accepting a new audit client or when assessing whether the firm wishes to continue the audit engagement with a particular entity. Factors considered include the actual and perceived integrity of the client, the competence and capability of the firm to undertake the engagement, and any perceived or actual independence or conflict of interest threats due to the type of work or relationship the firm has with the entity. There is a process that must be undertaken each year in relation to this, and the engagement partner is required to review and approve all acceptance and continuance decisions.

It is usual that in addition to the financial statement audit, our firm provides other services to the audited entity. These are services such as compliance engagements, regulatory return work or assistance in areas where our knowledge and skills from the audit enable the other work to be undertaken effectively and efficiently. This other work is governed either by specific regulation or by professional standards. We do not undertake any other work which would compromise our objectivity or independence. For many such entities such work is approved by the entity’s audit committee, which generally comprise independent non-executive directors and whose role is to oversee the quality of the audit and financial reporting processes. Revenue for this work is set out below:

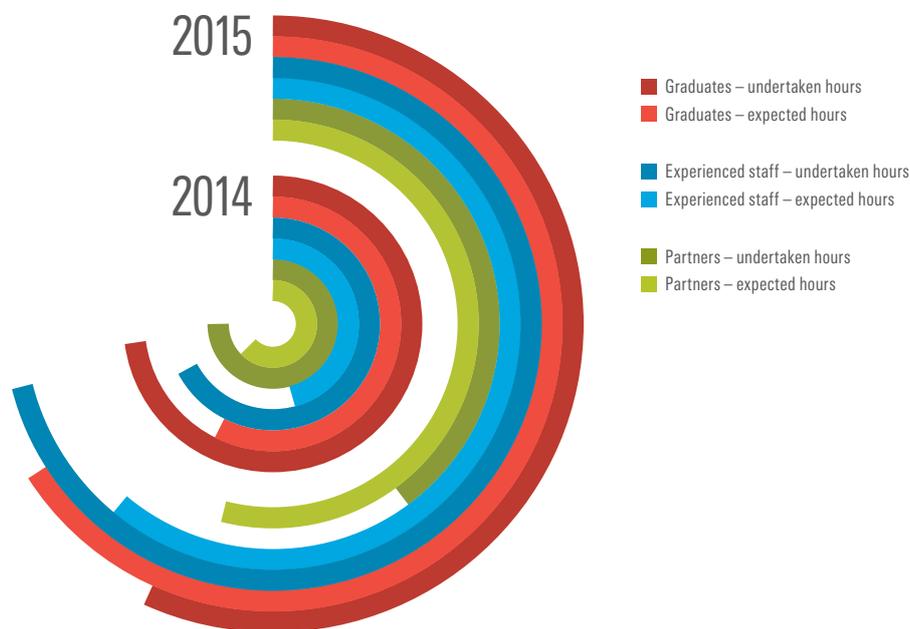
FIGURE 2: REVENUE OF AUDIT AND FINANCIAL REPORTING SERVICES



TRAINING, MANAGING AND COACHING

In addition to the core training and expertise our staff gain through their university and chartered accountancy programs, we train partners and staff in a range of matters, from technical to communications to project management. This continuing training enables our people to apply the right skills and expertise to their work. We conduct training through a mix of formal training sessions, online activities, on-the-job training by more experienced staff, coaching and mentoring. Our firm's policy is that partners and staff must undertake a minimum of 30 hours formal training each year. Attendance at training is monitored and feedback on all formal training is obtained to assess its effectiveness in meeting the learning objectives.

FIGURE 3: NUMBER OF HOURS OF CLASSROOM OR ONLINE TRAINING BY PARTNERS AND STAFF IN THE AUDIT PRACTICE



The critical importance of professional scepticism to audit quality is recognised in our extensive training curriculum. Practical online and face-to-face training have incorporated activities to strengthen this valuable mindset in partners and staff. We monitor whether coaching is happening through our 360 feedback process (described below).

PROVIDING SUPPORT

We have detailed audit methodology tools which are designed to guide our staff through the audit process in an organised and efficient manner, supporting compliance with ethical and auditing standards. In addition, specific partners and staff are available for consultation, particularly in areas of judgement such as evaluating the assumptions and estimates used by the client in impairment calculations. For all listed entity audit engagements, we appoint an engagement review partner who, with the audit partner, reviews the significant matters arising from the audit to provide a second look at the evaluations and conclusions. There is a partner dedicated to managing and supporting the understanding and application of independence principles and requirements, and a group that specialises in financial reporting standards.

Confirmations and other traditionally manual audit activities have been centralised and automated, enabling increased focus on matters of higher risk.

GETTING INVOLVED IN QUALITY ACTIVITIES

All partners and staff are encouraged to extend their focus and strengthen their understanding of quality approaches by getting involved in activities outside their specific engagements. This includes volunteering to present training at professional events – such as the Chartered Accountants Australia and New Zealand Audit Conferences – or within the firm; being involved in professional committees and discussion groups; taking opportunities for secondments or tours of duty in other work areas or organisations; or acting as reviewer in the firm’s, international network’s or Chartered Accountants Australia and New Zealand’s quality review programs.

FIGURE 4: AUDIT PARTNERS AND STAFF INVOLVED IN QUALITY ACTIVITIES

Year conducted	Audit partners and staff who presented at external events or conferences	Audit partners and staff who undertook an internal or external secondment or tour of duty during the year	Audit partners and staff involved in quality internal review inspections	Audit partners and staff involved in quality external review inspections
2015	XX%	XX%	XX%	XX%
2014	XX%	XX%	XX%	XX%

MONITORING QUALITY

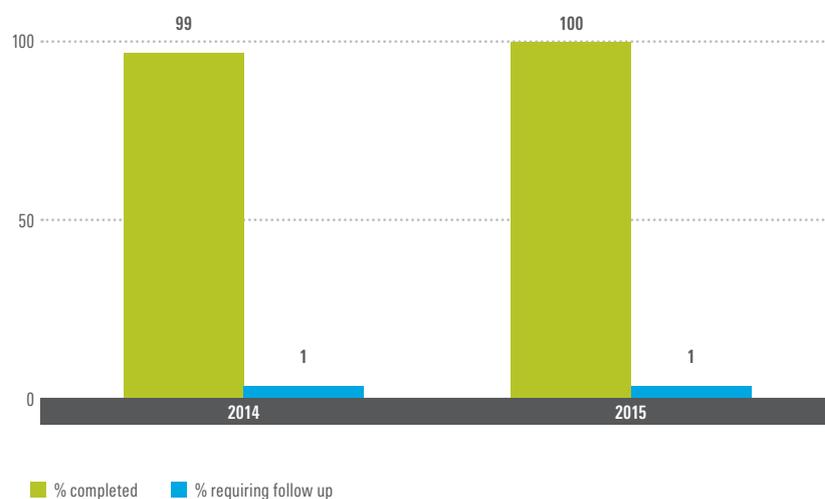
As well as putting in place the resourcing and experience to undertake quality work, we devote considerable resources to monitoring and checking to make sure the support is working and quality work is being consistently undertaken.

We do this by:

CHECKING INDEPENDENCE COMPLIANCE

Audit work is subject to extensive legislation and professional standards and regulations relating to personal and financial interests. We undertake a program of compliance to check that partners and staff are following these requirements. This program includes examining the records of randomly selected individuals including independence confirmations to check their compliance with the restrictions on holding shares or other financial interests in audit clients, including their banking arrangements. The last independence compliance review was undertaken during March and April 2015.

FIGURE 5: COMPLETED INDEPENDENCE CONFIRMATIONS ACROSS ENTIRE AUDIT PRACTICE



REVIEWING AUDIT FILES

Every year we review the quality of a representative sample of audit files. For these reviews, partners and staff not connected with the audit assess the evidence on the audit file with particular consideration of the work undertaken in significant areas. This program is designed so that every audit partner will have at least one of their audit engagements reviewed at least once every three years. The review by experienced audit partners and staff allows for general comments and areas for improvement to be highlighted and shared, as well as identifying any areas of non-compliance. Non-compliance results in immediate actions and follow-up reviews for the partner involved. The review results are discussed with the partners in all instances, providing a forum for discussion on quality work.

In addition to our own program, our work is also reviewed by:

- **our international network.** This review is similar to our own, but uses a program developed and applied to every network firm globally. The last international review was undertaken in January 2014.
- **ASIC.** This is an engagement file review program which focuses on specific higher-risk audit areas. The onsite reviews were undertaken between October 2014 and June 2015. The report on this work has not yet been finalised.
- **Chartered Accountants Australia and New Zealand.** This program involves a detailed survey of all individuals in the audit practice and provides extensive data to the firm on our partner and staff perceptions of the drivers of audit quality in our practice.

The review by experienced audit partners and staff allows for general comments and AREAS FOR IMPROVEMENT TO BE HIGHLIGHTED AND SHARED, as well as identifying any areas of non-compliance.

GIVING AND RECEIVING FEEDBACK

Every audit staff member has a performance review at least annually. In addition, their work on a particular audit will be evaluated by a more senior member of the audit team, with feedback provided during and at the end of the audit engagement. We also run a 360 feedback program whereby all partners and staff are able to provide anonymous feedback on all the partners and staff they work with. This allows any systemic or troublesome behaviours or activities to be identified and addressed. Last year we saw a downturn in timely responses to staff emails by partners. We increased our emphasis on the importance of this and held discussions on how to manage large inboxes at our monthly partner meetings.

LINKING REMUNERATION TO QUALITY OF WORK

Our partners are remunerated on a matrix of factors which include years of experience, role, type of work and behaviour. We use the results of reviews to assess the achievement of audit quality goals. Staff feedback, results and other comments from all of the review programs, and other partners' knowledge of the individual's consultation behaviour and professional approach, are all taken into account in the annual assessment and remuneration decision process. This ensures that the quality of the individual's work is linked to their remuneration package.

MANAGEMENT BODY OVERVIEW

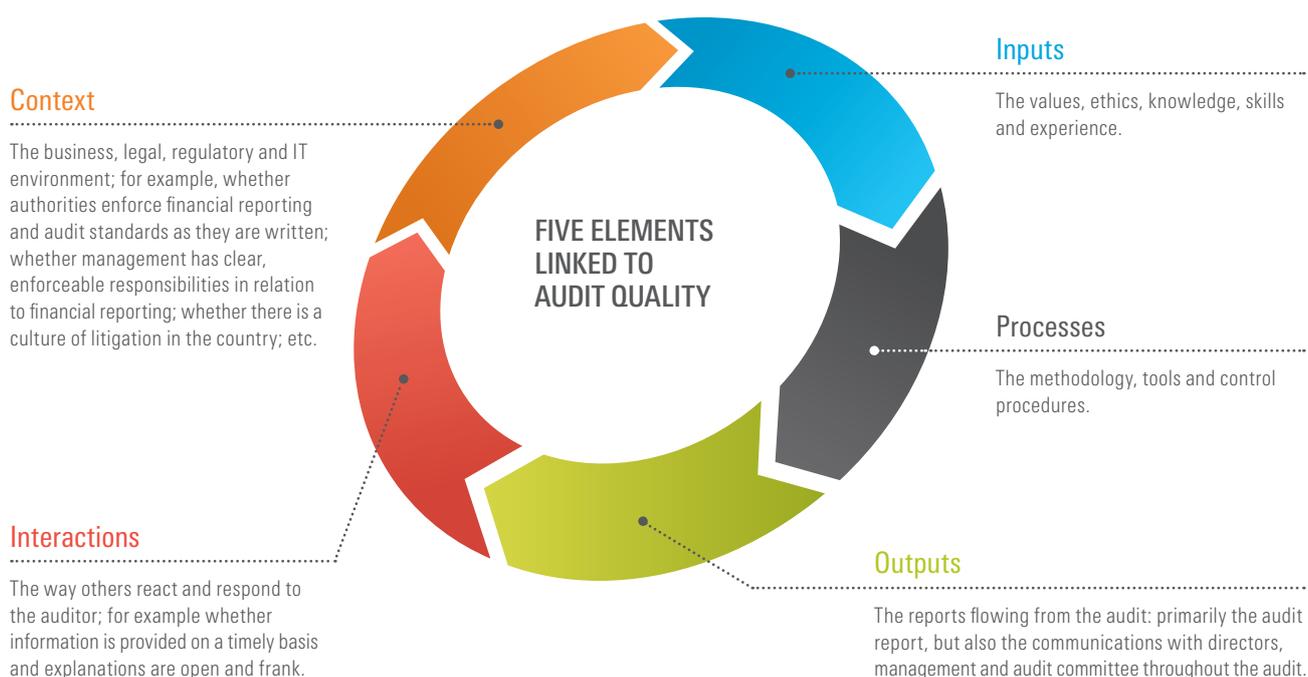
The firm's management body receives regular reports and holds regular discussions on the internal quality control system for the audit practice.

The management body reports that the system is effective for the year to 30 June 2015.

EXPLAINING AUDIT QUALITY

The quality of an audit is influenced by many aspects. The systems and processes we have described above focus primarily on the specific work undertaken, but there are other elements to be considered. The IAASB issued a Framework for Audit Quality in 2014, which identified five elements linked to audit quality.

FIGURE 6: IAASB FRAMEWORK FOR AUDIT QUALITY 2014



Although processes and inputs might be robust, the quality of work can still be affected by the other elements: for example, if relevant, reliable information is not available on a timely basis, or the prospect of litigation limits the exercise of professional judgement. Our processes and training aim to manage the effects of these other elements through the support and guidance available to all partners and staff in undertaking the audit procedures, evaluating evidence and forming audit opinions.

OTHER RELEVANT MATTERS

Made-Up Firm is part of the Made-Up international network. Membership of this network gives us access to tools and resources which support the quality of our work and enable us to match international standards. The international network is governed by a council which includes representatives of all member firms and sets minimum standards for those firms. These standards require not only quality work, but also that robust processes be undertaken by each firm to monitor the quality of work. If a firm does not adhere to these standards, the council may take remedial action.

In Australia, Made-Up Firm is in essence a number of individually run offices agreeing to common standards, processes, branding and operations. It is governed by a board of partners who are voted into the role by all partners in Australia. The board of partners is responsible for approving the strategy and overseeing the operation of practices, and for representing the Australian practices in the international network. The board meets quarterly, and meetings include discussion on compliance with quality standards. Audit work is subject to extensive external regulation and professional requirements, as well as several internally set standards which exceed those required for other work. This is because external audit work has a significant public interest aspect. The importance of this is recognised by the board of partners. The nature of their responsibilities and the focus of their activities and agendas reflect the importance of quality in relation to audit and the requirement for compliance with regulations and standards.

ENTITIES AUDITED IN ACCORDANCE WITH SECTION 332 OF THE CORPORATIONS ACT

MADE-UP FIRM ENTITIES AUDITED LIST

ABC Ltd
DEF Ltd
HJK Ltd
LMN Ltd
OPQ Ltd
RST Ltd
UVW Ltd
XYZ Ltd
ABC Ltd
DEF Ltd
HJK Ltd
LMN Ltd
OPQ Ltd
RST Ltd
UVW Ltd
XYZ Ltd
ABC Ltd
DEF Ltd
HJK Ltd
LMN Ltd
OPQ Ltd
RST Ltd



*“The quality of our work is
**PARAMOUNT TO OUR
PROFESSIONAL PRIDE
AND INTEGRITY.***

*We hope this report will help
inform the market about our
work and how we **implement
and monitor audit quality.**”*



CHARTERED ACCOUNTANTS
AUSTRALIA + NEW ZEALAND



Follow and tweet us
@Chartered_Accts



Join the conversation
charteredaccountants.com.au/myCommunity



Follow us on LinkedIn
Chartered Accountants Australia and New Zealand



Follow us
Chartered Accountants Australia and New Zealand
