

13 May 2016

International Auditing and Assurance Standards Board  
529 5th Avenue  
New York, New York 10017  
USA  
*Via online submission: [www.ifac.org](http://www.ifac.org)*

Dear Sir/Madam

**Invitation to Comment: Enhancing Audit Quality in the Public Interest**

The Australian Institute of Company Directors (AICD) is pleased to provide a submission to the International Auditing and Assurance Standards Board (IAASB) in response to its Invitation to Comment, *Practice Statement: Enhancing Audit Quality in the Public Interest*.

The AICD is committed to excellence in governance. We make a positive impact on society and the economy through governance education, director development and advocacy. Our membership of more than 38,000 includes directors and senior leaders from business, government and the not-for-profit sectors.

Directors recognise that audit quality is an important issue for quality governance. High quality audits support the integrity of financial reports and capital markets. As the largest director institute in the world the AICD is well placed to offer the perspective of non-executive directors to the IAASB's considerations. Our comments draw on the perspectives of our members through the AICD's Corporate Reporting Committee.

We note the IAASB's view that regulators are finding varying degrees of audit quality in audit inspection programs and that these findings, amongst other factors, have informed the IAASB's discussion paper and proposals on audit quality.

As the IAASB would be aware, Australian auditing standards have the force of law in our jurisdiction. These legal standards are supported by a strong co-regulatory environment including the role of the Accounting Professional & Ethical Standards Board (APESB, [www.apesb.org.au](http://www.apesb.org.au)), which sets the code of ethics and professional standards with which auditors who are members of professional accounting bodies must comply.

The AICD does not believe that further standards are warranted in the Australian context. Rather, we suggest that implementation of existing standards and requirements may benefit from improvement. Implementation issues, in the AICD's view, will be best addressed by targeted education focused on areas of concern to audit regulators.

Audit quality is not subject to a consistent definition. From a directors' perspective audit quality is generally assessed based on the quality of the interactions and challenges that management and the audit committee receive from the external auditors. Applying this lens, the AICD does not perceive a significant issue in the Australian environment regarding sub-standard audit quality. On this basis we do not support additional standards. We are concerned that some proposals in the paper, such as mandating preconditions and requiring documentation of supervision, would achieve little beyond adding to costs.

The AICD endorses the focus on professional scepticism that the IAASB is encouraging and supports the proposal to align the concept of professional scepticism throughout auditing standards. However, we caution against adopting documentation and compliance obligations that could be administratively complex and costly.

We note that Board Audit committees have a critical role to play in promoting professional scepticism on the part of auditors. In Australia the Australian Securities and Investments Commission (ASIC, [www.asic.gov.au](http://www.asic.gov.au)) as the regulator encourages directors to maintain a strong focus on audit quality. For example, ASIC's Information Sheet 196 *Audit quality: The role of directors and audit committees* recommends actions that directors and audit committees should take to promote audit quality in several areas, including:

- Recommending the appointment of an auditor, including seeking assurances on the firm's commitment to quality, audit transparency measures and related matters;
- Assessing potential and continuing auditors, including audit partner accountability, audit plan development, resourcing and the extent of reliance on external experts;
- Facilitating the audit process, including appropriate incentives for management assistance for audits, access to appropriate financial information and systems;
- Establishing ongoing communications with the auditor, including inviting auditors to committee meetings, providing direct contact with the board, and ensuring that the committee and board bring a high degree of professional scepticism to engagement;
- Maintaining auditor independence, including policies on independence, ensuring the committee forms independent views on relevant estimates and treatments, ensuring auditors explain the basis of their independence declaration, amongst other items; and
- Assessing the quality of audits, including whether auditors demonstrate a high degree of professional scepticism in the process and audit transparency.

The AICD sees merit in the IAASB's proposals to clarify certain existing standards, including how the group audit standard applies in different situations. We are aware that there can be difficulties in working arrangements in group situations and further guidance to assist auditors in working together in these circumstances is supported.

If you would like to discuss any aspect of our views please contact Kerry Hicks, Senior Policy Adviser, on [khicks@aicd.com.au](mailto:khicks@aicd.com.au) or by telephone +61 2 8248 6635.

Yours sincerely



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