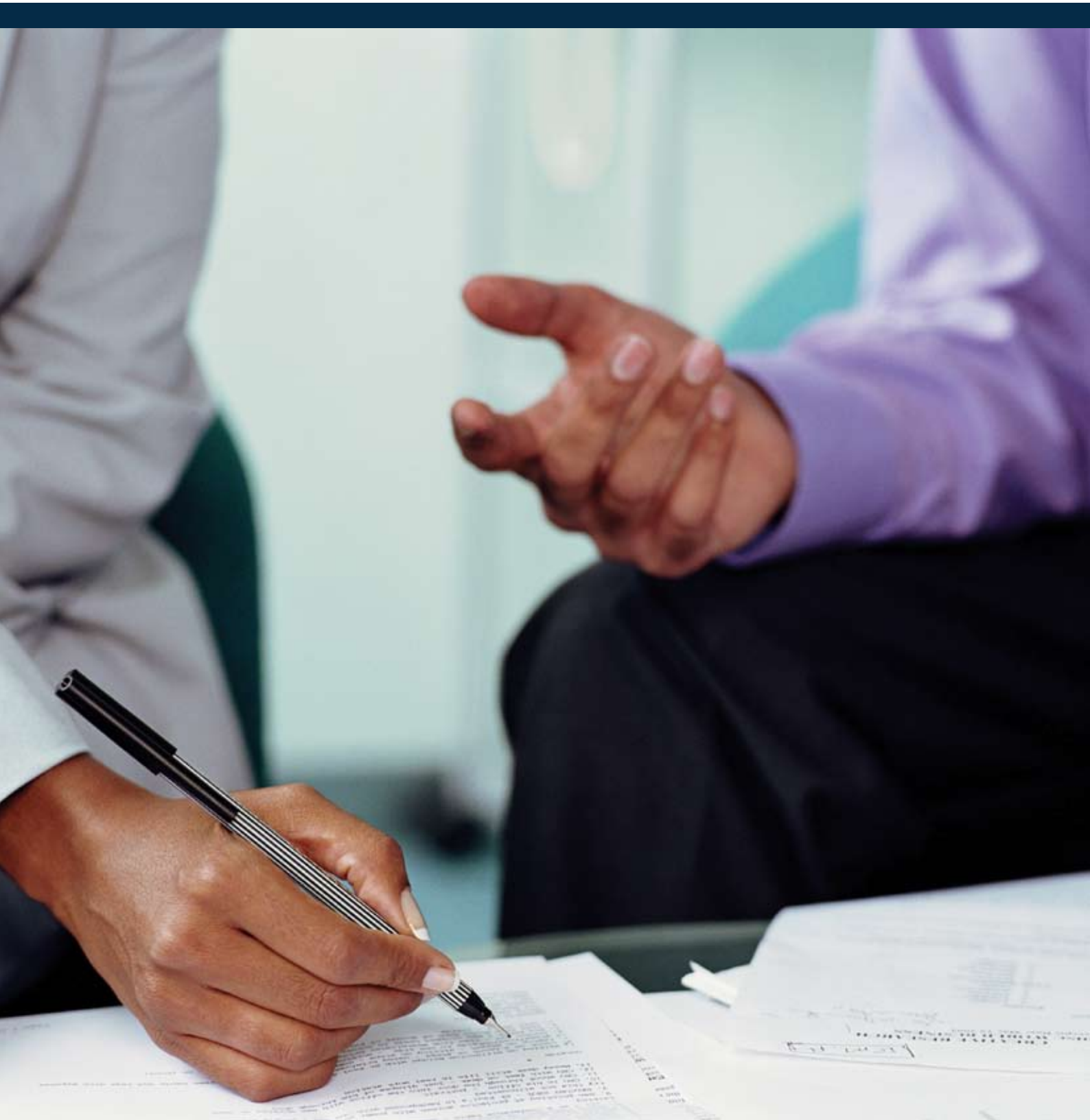




**Audit Quality Review Board Ltd**  
**Review of Activities - 2006**



# Contents

Introduction	1
The Role and Value of AQRB	1
Overview of 2006	2
Review process <sup>1</sup>	2
- Quality Control Report (“QCR”)	2
- On-site review	2
- Review of audit files	3
- Report	3
Reviews performed in 2006	3
Program for 2007	3

<sup>1</sup>This review of activities does not attempt to describe AQRB processes in detail.  
For a fuller understanding of these processes refer to the “How we work” section of the  
AQRB website [www.aqrb.org.au](http://www.aqrb.org.au)

# Introduction

The Audit Quality Review Board Ltd (“AQRB”) was established on 20 December 2005 and publicly launched on 17 February 2006.

This is the first AQRB review of activities and covers the period ended 31 December 2006.

AQRB is a ‘not for profit’ independent company, funded by participating firms’ fees, which aims, with respect to audits of publicly listed companies:

- to enhance the **credibility and integrity** of the Australian auditing framework
- to contribute to the **continual improvement** of auditing in Australia; and
- to be open to **public scrutiny** having clear objectives and transparent procedures.

The board of AQRB consists of up to 10 eminent individuals with broad knowledge and experience in legal, regulatory, business and auditing affairs. A number of board members who are originally from the audit profession provide the experience and professional expertise necessary to carry out reviews. However, they are not permitted to carry out reviews of the firms in which they formerly practiced. Also, in order to maintain independence, the majority of the board members (including the Chairman) must be persons who never have been practicing accountants.

St James Ethics Centre is the inaugural member of AQRB and Perpetual Ltd is the administrator of AQRB’s funds.

## The Role and Value of AQRB

AQRB’s role is to monitor and report on quality assurance processes by which participating audit firms seek to ensure their compliance with independence and audit quality related professional standards and legal obligations in respect of **financial statement audits of publicly listed entities in Australia**.

Participation is voluntary and available to all Australian auditors of listed companies. The four largest accounting firms have all agreed to be involved from the outset.

The value of transparency reporting by audit firms through organisations such as AQRB has received recognition in many quarters. As an example, in 2006 the UK Professional Oversight Board, a part of the UK Financial Reporting Council, published a consultation document on the information which the auditors of public interest entities should be required by law to publish.

### **The Board noted that:**

*“Transparency reporting by major audit firms ... has a significant role to play in encouraging audit quality. First it helps investors and the potential buyers of audit services to understand the strengths of a particular audit firm ... relatively weak or inadequate disclosures by a firm can be seen as adding a risk factor to the use of that firm. Secondly, clear public information on (for example) the firm’s processes and practices for quality control, for ensuring independence, for partner remuneration, on their governance and network arrangements, provide a clear incentive to all within the audit firm to live up to both the spirit and the letter of what the firm promises”*

# Overview of 2006

This report covers all the AQRB activities in 2006. In summary those activities have been to:

- formally launch the AQRB, this occurred on 17 February 2006;
- develop the programs and reports required for the board's activities;
- establish Memoranda of Understanding with the professional accounting bodies;
- establish communication protocols with the Australian Securities and Investments Commission, the Financial Reporting Council and the Auditing and Assurance Standards Board. Communications have been facilitated by periodic liaison meetings;
- review and publish the Quality Control Reports prepared by the four participating firms;
- review the systems and processes for audit quality and independence that the four participating firms have in place and report thereon; and
- hold discussions with other audit firms regarding their participation in the AQRB program.

## Review process

### Quality Control Report ("QCR")

Each participating audit firm provides a QCR to AQRB. The purpose of the QCR is to provide information regarding the quality control policies, processes and systems that the firm has in place to provide it with reasonable assurance that it and its personnel comply with professional standards and regulatory and professional requirements.

In addition to the explanation of the firm's quality control procedures the QCR includes an explanation of the firm's structure, including the organisation of its risk management and audit practices.

AQRB reviews the QCR to satisfy itself that the document appears to deal with all necessary aspects of the firm's quality procedures and that the information provided is in accordance with AQRB's observations in the course of its on-site review, where performed (see below). AQRB does not, however, accept any responsibility for the report which bears a specific disclaimer to this effect. At the successful conclusion of this review the QCR is made available to the public on the AQRB website.

### On-site review

After submission of its QCR an audit firm may then elect for the further option of having its quality control procedures reviewed by AQRB. This review includes:

- examination of a document similar to the QCR but providing more detailed and potentially commercially sensitive information;
- examination of comprehensive supporting documentation dealing with policies, processes and systems; and
- interviews with senior members of the firm responsible for quality processes.

This review is carried out by AQRB directors, assisted where required by technical review personnel.

AQRB identified and focused on three processes which it believes are critical to achieving audit quality.

These are:

- The Client Continuance/Risk Assessment process, and how it influences the conduct of the audit;
- The pre signing quality control review conducted by the Engagement Quality Review Partner; and
- The firm's monitoring processes, designed to test adherence to its policies and the quality of work performed.

AQRB offered recommendations and suggestions to the firms on these processes.

## Review of audit files

For financial periods commencing on or after 1 July 2006, auditing standards have “the force of law”. However, AQRB commenced its reviews prior to this date and the small number of audit files it examined were also for an earlier date (financial periods ended 31 December 2005). The professional standards and regulatory and professional requirements that applied at the time of the review were therefore:

- Auditing Standard 206: Quality Control for Audits of Historical Financial Information;
- APS 5: Statement of Quality Control for Firms;
- Professional Statement F1; Professional Independence; and
- Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004 (“CLERP 9”).

AQRB did not, as part of its review of a firm, examine the merits of a particular audit, the conclusions reached in that audit or the appropriateness of the audit opinion other than as merely incidental to the review of processes and systems described above.

## Report

At the conclusion of the review AQRB prepares a report on its findings which it submits to the reviewed firm. This report typically contains confidential information which might identify individual clients of the firm and so cannot be made public. A summarized version of the report is prepared and posted on AQRB’s website and, if the audit firm wishes, also on its website.

A more comprehensive explanation of the role of AQRB and the review process appears in the Constitution and Rules of Operation, both of which are accessible at [www.aqrb.org.au](http://www.aqrb.org.au).

## Reviews performed in 2006

In 2006 AQRB reviewed the four largest accounting firms and plans to make public its reports on these firms early in 2007. The QCR for each of the firms have been completed and may be viewed on the AQRB website.

In addition to the reports on individual firms, AQRB plans to publish an omnibus report which will set out the major themes and recommendations which emanated from the 2006 review and reporting process.

## Program for 2007

AQRB has commenced planning for reviews to be completed in 2007. The four largest firms will be reviewed again and, following discussions which occurred in 2006 and are ongoing, it is expected that other firms may elect to participate in the AQRB process as the benefits become more obvious.

AQRB will build upon the knowledge of the firms’ processes and systems that was gained in 2006. Utilisation of this knowledge will enable AQRB to focus on specific areas of interest rather than attempting to cover all areas of audit quality and independence monitoring.