



Audit Quality Review Board Ltd

Public Report

**Review of
Ernst & Young Australia**

December 2007

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The Review

1. Introduction

- 1.0.1. AQRB (the Audit Quality Review Board) is a not-for-profit company whose objective is to help improve the quality of auditing with respect to listed entities and other public interest entities. In doing so, AQRB aims to enhance the credibility and integrity of the Australian auditing framework, to improve public confidence in that framework and to contribute to the continual improvement of the audit profession for the benefit of the Australian public.
- 1.0.2. The member firms of the Australian auditing profession, in financially supporting AQRB, wish to demonstrate their commitment to ethical and professional standards relating to auditor independence and audit quality. The Company has been established as a body which will operate independently of the profession to monitor compliance with these standards.
- 1.0.3. This report contains the results of a review undertaken by AQRB during calendar year 2007. A general description of AQRB, its role and review processes is available on its website at www.aqrb.org.au.

2. Scope and Objective of the Review

- 2.0.1. The key objective of the review was to assess the adequacy and effectiveness of the policies, procedures, and systems that Ernst & Young Australia (“EYA”) uses to ensure its compliance with professional standards and regulatory and professional requirements (collectively described in this report as “the Requirements”) with respect to their audit of Australian entities. This year the scope of the review was expanded beyond that of listed companies to encompass other public interest entities, defined by AQRB as listed entities, unlisted disclosing entities, APRA regulated bodies and large proprietary companies (as defined in the Corporations Act). This increase in scope necessarily entailed an increase, from 5 to 20, in the number of audit files reviewed.
- 2.0.2. For this second year of review by AQRB, EYA has updated the Quality Control Report (“QCR”), initially prepared last year, which describes the policies of Ernst & Young, systems and processes designed to ensure that the Requirements are adhered to in the conduct of audits by the firm.

- 2.0.3. AQRB did not, as part of its review, 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 documentation described below under the heading “Review Process”.

3. *The Firm under Review*

- 3.0.1. EYA is a member of Ernst & Young Global (EYG) which practices in 10 geographic areas across 140 countries. EYA is part of the Oceania Area along with Fiji, Indonesia and New Zealand. The Oceania Area Managing Partner is appointed by the Oceania Area Advisory Council, the governance body elected by the partners in the region. The Oceania Area Managing Partner also participates as part of the Global Executive and has overall management responsibility for the Australian practice of Ernst & Young including ensuring that policies on quality and independence are properly executed in Australia.
- 3.0.2. In September 2007 the Ernst & Young practices in Australia and New Zealand merged and the governance structures now cover the merged group. Details of the working structure are still evolving.
- 3.0.3. There are three service line divisions in EYA one of which, Assurance and Advisory Business Services (AABS), conducts the EYA audits of companies and other entities. There are two ‘channels’ in AABS; one is ‘assurance’ the other ‘advisory’; it is the former that carries out the audit work (the audit practice). AABS is headed by a Managing Partner responsible to the Area Managing Partner. The firm has regional offices in each State other than Tasmania. Within each region is a Regional Practice Leader reporting to the AABS Managing Partner; these regional leaders have a day to day quality and risk management responsibility within the audit practice.
- 3.0.4. Also within the AABS practice there is a Professional Practice Director (PPD) who ensures that EYA policies and the various tools and practice aids that assist their implementation reflect requirements of professional standards. The PPD is responsible *jointly* to the AABS Managing Partner and the Area Leader on Quality and Risk Management referred to below. The PPD has delegates in each EYA office to assist the role.
- 3.0.5. The audit practice also undertakes an inspection and review process (Audit Quality Review or AQR) designed to monitor, and report on to management, compliance with EYA policies and quality of work within the AABS practice. The AQR program is organized by Ernst & Young on a global basis.

- 3.0.6. Firm-wide and outside the audit practice, at an area/national level, there is an Area Leader (Australia and New Zealand) for Quality and Risk Management issues in the region. This includes oversight, via a National Independence group, of conflict of interest and related independence policies and recording and compliance systems. These quality and risk management programs have structural links into Ernst & Young Global. The EYA Director (and team) of People and Culture ensures there are effective procedures and activities in the areas of induction, training, counselling and performance assessment, with much of the individual detail undertaken by the audit practice.
- 3.0.7. EYA is, along with the other big 4 firms, an initial subscriber to the AQRB process. It has willingly allowed the AQRB review team to undertake its task within the firm and has both provided the review team with the material requested and facilitated access to EYA personnel as requested. EYA has filed an appropriate Quality Control Report (QCR) for inclusion on the AQRB website.

4. *Review Process*

- 4.0.1. A full description of the AQRB review process is in a document entitled 'The AQRB and its Review Processes' contained on the AQRB website at www.aqrb.org.au. The review process starts with examination of a QCR filed by the firm under review. The QCR summarises the policies and processes by which the firm seeks to comply with standards and laws relating to audit quality and independence. The QCR relevant to the current EYA review is on the AQRB website. This QCR, together with a more detailed non-public QCR and associated reference material, was the starting point of this review. It is useful source material to assist in a better understanding of the EYA policies and procedures and the findings of this report.
- 4.0.2. AQRB is satisfied that the QCR fairly describes the EYA quality control systems that aim to provide compliance with the relevant standards as noted in the QCR.
- 4.0.3. AQRB has then carried out a review as to how the procedures described in the QCR are being applied in practice within the firm. That review is the subject of the remainder of this report.
- 4.0.4. The review by AQRB has been conducted in five stages. All of the work was carried out in the Sydney and Melbourne offices of EYA by a review team comprising the two signatories to this report. First we updated our understanding of the EYA systems and procedures by reviewing changes to policy and processes implemented since the last review, together with the revised QCR. In the second stage we met with those EYA personnel responsible for maintaining those systems and procedures. We also met with other senior members of management of the Assurance practice who had assumed new roles

since last year. Thirdly, the AQRB review focused on the internal monitoring process of EYA, the AQR program, which carries out more intensive examination of files, by reviewing findings arising from the 2007 AQR program including interviewing selected team leaders. AQRB has not sought to replicate the very detailed work of the AQR, rather to monitor it and test what it does. Fourthly we examined a number of audit files to sight evidence of the application of the updated policies and procedures. In the fifth stage we documented our findings, developed our conclusions and recommendations and discussed these with EYA before finalizing this report.

- 4.0.5. In selecting audit files for review, AQRB included publicly listed entities, entities where there was a public interest such as public trusts or borrowers from the public using various forms of borrowings in the market, superannuation responsible entities and other APRA regulated bodies and large proprietary companies. The spread of balance dates was over the period 30 June, 2006 to 30 June, 2007, which had the effect of observing compliance with the Australian Auditing Standards in effect as at 1 July, 2005 (for the 2006 balance dates) and for the 30 June, 2007 balance date, the implementation of the new legally mandated Australian Auditing Standards effective for financial periods commencing on or after 1 July, 2006. We also included in our selection some engagements that had been subject to review by EYA's own internal monitoring program and some that had been assessed as Close Monitor through EYA's Client Continuance Risk Assessment process.

Findings of the Review

5. *The Focus of the Findings*

- 5.0.1. In last year's report we discussed the significant changes in legislative and professional requirements for the conduct of audits, introduced both in Australia and overseas and the consequent need for audit firms to review and upgrade their policies and procedures, including the tools available to their audit staff.
- 5.0.2. Since last year, the application of Australian Auditing Standards has become mandatory, further increasing the need to ensure that partners and staff are fully aware of all legal and professional requirements (The Requirements) and are equipped to conduct audits that are in accordance with these. Furthermore, audit firms are required to have in place quality control systems that provide assurance that the Requirements are met.
- 5.0.3. The Review is focused on the relevant standards and professional regulations that apply in Australia and the policies and procedures that EYA has put into place in respect of those standards and regulations. Importantly it aims to assess how well those policies and procedures are applied in practice.

5.0.4. Auditors must comply with the requirements of a substantial body of legislation, professional standards and professional regulations. In regard to quality control processes and procedures, including those concerning independence, the most significant of these are:

- The Corporations Act 2001 (as amended by The Corporations Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004 (“CLERP 9”))
- APES 320: Quality Control for Firms
- Parts A and B of APES 110:Code of Ethics for Professional Accountants
- Auditing Standard ASA 220: Quality Control for Audits of Historical Financial Information

The auditor independence provisions of CLERP 9 generally applied as of 1 July 2004. The operative date for APES 320 and 110, which replaced Miscellaneous Professional Statement APS 5 and Code of Professional Conduct F1 respectively, is 1 July 2006. ASA 220, which replaced Auditing Standard AUS 206, is operative for financial reporting periods commencing on or after 1 July 2006.

5.0.5. As noted earlier, a summary of how EYA represents the manner in which its quality control system operates is contained in its QCR and this has been reviewed by AQRB. The findings below, which address the principal issues that emerged, result from consideration of the various matters observed by AQRB.

5.0.6. In its findings the AQRB review team (referred to in this section of the report as “AQRB”) has identified a number of issues to be addressed by EYA and in other cases, best practice recommendations to be considered. These relate to those areas where AQRB believes further progress to be desirable.

5.0.7. For those areas where the EYA initiatives appear to be working effectively, or are being further developed to achieve their purpose, this report contains observations that are of a general nature only.

5.0.8. During the review, AQRB followed up on the suggestions and recommendations made last year. Progress in dealing with these matters has been discussed with EYA management. In some cases, action has been taken to address the recommendations. In other cases, the matters raised are being considered as part of a wider review of the particular issue. It should, however, be recognized that insufficient time has elapsed since last year’s report to enable EYA to fully resolve all the matters AQRB raised or for changes in policy or practice, recently made, to be reflected in the audit files selected for review this year.

6. *EYA Policies and Systems*

- 6.0.1. The AQRB 2006 report described the significant efforts made by EYA to ensure audits conducted by the firm are in compliance with The Requirements. It also mentioned the difficulties experienced in introducing many new tools and procedures over a short period of time and in achieving full integration of a number of systems and information databases so as to provide audit partners and staff with a “user friendly” audit environment.
- 6.0.2. During the review this year, AQRB noted that the efforts made by EYA to improve and refine their audit related policies and supporting procedures and tools continue unabated and the firm clearly continues to invest heavily in this area.
- 6.0.3. Of particular significance is the introduction, commencing late 2007, of the firm’s new automated audit workstation. The implementation of this new system is a major task for the firm over the next year and it is anticipated that many quality control processes will be more easily applied as a result of the greater integration of tools and information it is designed to provide.
- 6.0.4. Other areas of development of tools and procedures we noted were: better access tools to Q&RM issues on the EYA intranet plus regular bulletins on key audit and accounting matters; enhanced conflict and business relations checking systems; and the introduction of a regular review of client risk ratings.
- 6.0.5. In summary, AQRB recognizes the progress made by EYA since last year and makes a general recommendation that EYA continue to develop and promote continuous improvement in the level of audit quality and risk management within the audit practice.

7. *Leadership and Values*

- 7.0.1. Leadership that promotes EYA values, including quality control and the importance of ethical conduct, comes from those in the EYA management team described earlier. AQRB noted last year that the EYA leadership has made a serious commitment of senior people to responsible and time consuming roles in the areas of Q&RM, supported by significant staff resources below partner level. That has not altered indeed in some respects the commitment has grown (see Para. 6.0.4).

- 7.0.2. While much of the quality values are embedded in culture through the audit practice procedures referred to later in this report, there are some over-arching ways that messages on quality and ethics can come from the top executives to partners and other members of staff.
- 7.0.3. In this latter context AQRB has examined three main areas (details of which have been set out by EYA in the QCR filed by the firm):
- Promotion of a culture of quality and ethical conduct
 - Professional development, in particular core training
 - Performance management

At a macro level AQRB is satisfied that EYA has in place programs in these three areas that engender a culture of quality and ethical values. It makes no recommendations in these respects but makes some individual observations that support steps EYA is taking for continuous improvement.

- 7.0.4. There is ample material within the EYA systems, such as the Q&RM Home Space, that indicates the broad, clear messages from the leaders of EYA that a culture of quality and ethical values is to govern the work of EYA. AQRB does not doubt the sincerity of commitment.
- 7.0.5. In terms of professional development, EYA has a policy of ‘lifelong learning’ which starts at induction. New starters at EYA are given induction courses that include issues related to independence and professional ethics and standards. Ongoing core training including audit quality is (in the case of AABS) overseen by an AABS L&D Steering Committee. There is also mandatory web-based training on independence. The L&D Steering Committee is an important vehicle for the weighting of quality issues into the continuing development of partners and staff. The AABS “Learning framework” and “Learning map” are outputs of the committee. These documents have modules that are bundled into discrete courses for each level from new inductees to partners. The framework program embeds EYA values into relevant sections. Training also includes both web based and DVD modules on particular topics (including mandatory independence training), plus seminars for more senior personnel called ‘Executive Events’. AQRB gained the impression that in those Executive Events the underlying emphasis on quality, ethics and standards is given particular weight.
- 7.0.6. The AABS practice (through its Business Unit Directors) is responsible to ensure relevant staff members attend training. AQRB noted that follow up mechanisms to ensure appropriate attendance are still under development.
- 7.0.7. AQRB observes that a continuing emphasis of Q&RM in training is important and also urges that EYA continue to develop its systems to ensure that the relevant training is given to all appropriate personnel.

- 7.0.8. A further firm-wide way in which the quality and ethical values are embedded into the minds of personnel is through the performance assessment system. EYA has a formal system of staff assessment once per annum with an interim assessment half yearly. Each staff member has a 'counsellor' and 'counselling family' and plans are established that form the basis of later assessment using a balanced scorecard. In the governing policy (FP 142) the firm's commitment to quality and ethical values is present among a number of other attributes. However since about 2005, EYA in Australia has increased the emphasis on quality and ethical values for partners and executive directors. A 'roundtable' consisting of top executives of EYA meet to assess each partner based on preliminary ratings from the relevant business unit director. A similar process occurs for executive directors but in that case the roundtable comprises the senior executives of AABS. In both cases the weighting of Q&RM issues is such that, failure in that respect means not being able to have a high rating overall which in turn has curtailed the prospect of increases in remuneration. The elevated weighting requirement to quality values implicit in the steps since 2005 has not yet gone below the level of executive directors, although the more general inclusion and weighting of the issue is part of the normal process.
- 7.0.9. AQRB takes the view that the added emphasis of Q&RM in staff assessment processes is a powerful reminder to partners and executive directors of the importance of the issues involved.

8. *Independence and Threats to Independence*

- 8.0.1. AQRB noted in last year's report that independence is important because, in its absence, the objectivity of the auditor, and hence the quality of audit judgements, may be threatened. Within the context of a particular audit engagement there are thus many audit quality steps (discussed in later sections of this report) mandated by EYA to ensure audit objectivity.
- 8.0.2. There are also firm-wide controls in place that, at the threshold, try to guard against the use of audit personnel (or against having pressures directly or indirectly bear on those personnel) in the audit engagement role where their objectivity may be put in doubt; this may for example relate to where financial or personal circumstances of a member of the audit team might threaten independence and therefore prejudice objectivity. This in turn has the potential to damage the reputation of EYA.
- 8.0.3. These EYA mandated steps and controls (governed by EYA Policy FP102) also respond to the detail of the relevant standards and codes on the subject of threats to independence (in the way set out in the EYA QCR for 2007).

- 8.0.4. Over the two year span of the AQRB review process (for 2006 and now 2007) AQRB has sought to fully understand the workings of the underlying general procedures in this area. It has particularly wanted to see how they aim to fulfil the core essence of the standards and professional codes in terms of limitation of threats to independence. It has also checked to see the procedures are being put into effect in an active way. In brief the AQRB understanding from reading EYA documents, viewing systems and hearing EYA executive explanations is as follows.
- 8.0.5. EYA audit staff (and their immediate family) are not permitted to have financial investments in, and some other financial relations with, any Ernst & Young audit client in Australia or worldwide. Databases exist to enable staff to check client lists. Non-investment financial relations (such as insurance and bank loans) may be allowed on normal retail terms. To ensure these provisions are observed EYA requires general independence confirmation sign offs at the start of employment, and then annually for all professional staff; partners and senior professional staff must also disclose, on an ongoing basis, their investments on a database. Also all staff on a particular audit engagement must make a comprehensive independence declaration in respect of that client normally at the commencement of a particular engagement.
- 8.0.6. EYA audit staff cannot have personal business dealings (e.g. as a private consultant) with an audit client; acceptance of hospitality is also controlled. There are rules excluding staff from participation in an engagement when past or future employment with the client is involved or when close family members are employed in key positions by the audit client. In these areas EYA relies on both the general independence and client specific (engagement) declarations and its staff counselling processes as the relevant checks.
- 8.0.7. There are similarly oriented rules (as those above on individual financial and business dealings) for the Ernst & Young Australia partnership (the firm) itself concerning its dealings with an audit client. Some business relations with clients are prohibited; some require approval. The lead engagement partner is required to approve the provision of non-audit services (e.g. tax services) to an audit client to ensure the objectivity of the audit will not be compromised. Terms of dealing (economic) with clients are said to be the subject of engagement acceptance consideration and independent partner review.
- 8.0.8. EYA has a National Independence group to carry out test audits for partner and staff compliance with the financial disclosure and declaration systems both generally and specifically for a sample of partners and executive directors; the latter audit is an intrusive process into the individual's financial affairs. The National Independence group also carries out overall EYA client conflicts monitoring and signs off on EYA business relations such as the purchase of goods by EYA from a client. EYA also has procedures that aim to comply with

the legislated partner rotation requirements. The effectiveness in these various respects is audited by the EYA internal review team (AQR, see later) and by EY Global.

8.0.9. AQRB observes that the EYA controls to guard against threats to independence are a comprehensive attempt to deal with core threats. EYA has a pro-active approach towards this issue. EYA has monitoring processes in place to detect breaches and failures to observe; some (relatively few) are detected from time to time and are dealt with by the firm. AQRB views this as a very active, reasonably resourced monitoring scheme, linked into EY Global requirements. Furthermore as noted in an earlier section, compliance with quality and independence issues is significantly weighted in performance assessments for senior levels and serious breaches can attract financial penalties.

8.0.10. In reaching these views AQRB has also made a number of specific observations to EYA on particular issues of continuous improvement.

9. *Audit Quality*

9.1. The Key Elements of Audit Quality

9.1.1. A high quality audit is not achieved only by compliance with regulations and professional standards. Intelligent and challenging inquiry, skepticism, the exercise of professional judgment and the fortitude to stand one's ground are essential ingredients of the audit process. A firm aiming to deliver high quality audits must therefore seek to develop those attributes in its people.

9.1.2. AQRB has some concern as to the extent of checklist style documentation that auditors are required to sign off to ensure compliance with the very large number of Requirements. This concern arises because of the danger that "box ticking" can become an end in itself and can deflect an auditor from challenging inquiry and the exercise of professional judgment.

9.1.3. If auditing were to develop in this mechanistic way, there could be adverse consequences, not only for the quality of audits, but also for the appeal of auditing as a career for persons of intellectual vitality and rigour. This would be unfortunate, since the conduct of an audit of a modern business entity requires a capacity to understand and deal with complex issues and to make difficult judgments, often under pressure.

- 9.1.4. AQRB notes that EYA shares these concerns and continues to review its mandatory audit documentation requirements so as to reduce the extent of checklists as much as possible, consistent with recently heightened audit standards on documentation, whilst seeking to ensure that firm resources, applied to each audit engagement, are of a quality and type appropriate to the circumstances. AQRB supports these efforts.
- 9.1.5. EYA recognises that the protection of its reputation as a firm that delivers quality audits is crucial if its audit reports are to be seen to enhance the credibility of information presented to the investing public and indeed to ensure the future prosperity of the firm. EYA therefore seeks to ensure that audit engagements of particular public interest are identified and conducted with this consideration in mind. Further, where those engagements carry an especially high risk, the policies of the firm require this to be recognised and additional procedures to be applied. These often require the involvement of additional skilled specialists and a higher level of review of the work conducted. EYA's identification of higher risk clients, as a basis for application of these policies, is achieved through the Client Continuance Risk Assessment process.
- 9.1.6. AQRB, in its report to EYA last year, identified the importance of the Client Continuance Risk Assessment process as a means of assessing engagement risk to the firm. Unless this process is effective, the firm may not properly assess engagement risk and cannot therefore be confident that EYA policies for the conduct of higher risk engagements, including the higher level of quality control review, are appropriately applied.
- 9.1.7. AQRB also recognised last year, the significance of EYA's monitoring system, the Audit Quality Review (AQR) process and the need for this to be conducted in a challenging and effective manner to test adherence to policy and to assess the quality of the work performed.
- 9.1.8. Again this year, AQRB has reviewed how EYA's policies for the delivery of quality audits are applied and how EYA has responded to the observations and recommendations made last year. The results of this review follow.

9.2. The Client Continuance Risk Assessment process

- 9.2.1. The Accounting Professional and Ethical Standards Board's "Quality Control for Firms" (APES 320) requires that firms shall establish policies and procedures for the acceptance and continuance of client relationships. Auditing standards (AUS 206, and for reporting periods commencing on or after 1 July 2006, ASA 220, "Quality Control for Audit of Historical Information") require that the engagement partner

shall be satisfied that a risk assessment has been conducted prior to acceptance of a client or an engagement. The purpose of this assessment is to ascertain whether the engagement poses an unacceptable risk to the firm and should therefore be declined, or to identify what resources and procedures the firm should bring to bear in order to ensure that the risk is appropriately managed.

9.2.2. An effective assessment of risk, prior to accepting or continuing with an engagement, is important for three reasons:

- the firm has the opportunity to decline engagements that pose an unacceptable level of risk;
- by identifying highest risk engagements, firm management is able to ensure that an engagement team with appropriate skills and experience is appointed, that such additional resources as may be needed are allocated and that decisions regarding those matters are made by persons of appropriate seniority and objectivity, rather than being the sole prerogative of the local business unit leader; and
- members of firm management can be made aware of the highest risk clients, thereby providing the opportunity to ensure that engagement performance is monitored more frequently and that developments in respect of those clients are monitored and responded to appropriately.

9.2.3. EYA policies recognize that, to protect the firm's reputation, an additional level of care and surveillance is needed where the firm decides to continue with a high risk client. For example, policies require that the team, including the Independent Review Partner (IRP), should be carefully selected and approved by management independent of the local business unit leader, priority should be given to staffing the job, including the availability of specialist consultants, the IRP should be prepared to do more and the practice leader should monitor compliance with the policy for highest risk jobs and confirm periodically that this has been done. Policy also requires that the engagement selection criteria for the AQR program include a bias towards those of higher risk.

9.2.4. AQRB has made a number of suggestions and recommendations to EYA regarding the application of firm policies in this area. As noted in paragraph 6.0.4, EYA has commenced a regular review of client risk ratings.

9.3. Quality Review by Independent Review Partners

9.3.1. As mentioned last year, the role of the IRP has evolved from one of providing consultation to one that carries a significant responsibility, under audit standards, for conducting a review of engagement quality,

- 9.3.2. Under EYA policy, the IRP is required to be more deeply involved in higher risk engagements. Policy also requires that the IRP should provide documented comment where appropriate and sign and date any working papers reviewed. One would expect that, where the IRP had focused on important issues and made a judgment on them, such additional comment would be provided.
- 9.3.3. AQRB has made a number of suggestions and recommendations to EYA regarding the application of firm policies in this area.

9.4. Monitoring: the Audit Quality Review (AQR) Process

- 9.4.1. The importance of an effective and challenging monitoring process was acknowledged by AQRB in the 2006 report. To this end, a number of suggestions and recommendations were made.
- 9.4.2. AQRB has again spent some time examining the EYA AQR program for 2007 and the manner in which the findings from the 2006 program have been dealt with. We note that significant effort has been made this year to increase the profile and effectiveness of the program. This is reflected in the seniority of those involved in planning and conducting the program, the meaningful selection of engagements that were reviewed, the involvement of practice leaders in the process and the attention given to the findings.
- 9.4.3. AQRB observed that serious findings of the EYA AQR, of which there are few, are considered by a panel before an adverse quality rating is given to the partner concerned. This rating is provided as input to the appraisal and remuneration setting process.
- 9.4.4. AQRB has made a number of suggestions and recommendations to EYA regarding the application of firm policies in this area.

9.5. Audit Documentation and Review

- 9.5.1. AQRB observed, through file examinations, that the standard of audit documentation was generally good, although improvement is needed in some areas. AQRB noted the pending introduction of a new automated audit system that is likely to assist in facilitating improvements.

9.6. Fraud

- 9.6.1. AQRB in its 2007 review program requested its reviewers to consider the approach to fraud issues taken by firms during the planning and conduct of audits within the context of the requirements of Australian Auditing Standard ASA 240 “The Auditor’s Responsibility to Consider Fraud in an Audit of a Financial Report”.
- 9.6.2. Some matters that may be relevant to assessing the risk of fraud are addressed through EYA’s Client Continuance Risk Assessment process. These include, inter alia, issues of management integrity, pressures to show good performance arising from market expectations or aggressive performance based remuneration policies, the presence of significant related party transactions or the propensity to take legal and regulatory issues lightly. The presence of these factors requires a response from the audit team.
- 9.6.3. EYA has further responded to ASA 240 by introducing a comprehensive questionnaire and work program to assist auditors to identify and respond to fraud indicators. These are linked to the audit activity steps within AWS, the firm’s automated workstation. AQRB saw evidence of completion of this documentation and of audit team discussions regarding the risk of fraud on the audit files examined. AQRB made some observations about improvements.

9.7. Technical Support for Auditors

- 9.7.1. AQRB notes that EYA has taken steps, over the last year, to improve the level of technical support to its auditors. During the year the Professional Practice Directorate (PPD) has reorganized to provide on the ground representation in each major office so as to provide more immediate assistance to auditors in the field. This group of PPD representatives communicates regularly with the National Professional Practice Director and the representatives are involved in the exercise of quality control, including assistance with the follow up of matters arising from the conduct of the AQR program within their office.
- 9.7.2. AQRB also notes the increased frequency (twice monthly) of electronic newsletters to partners and staff promulgating information on audit related matters, both of a technical and risk management nature. These are designed to inform staff quickly of emerging issues, or those that need to be urgently addressed. A review of these newsletters, and of the Quality and Risk Management newsletters issued from time to time, enabled AQRB to form the view that they are an effective means of focusing audit partners and staff on important issues in a timely manner.

9.8. Overall Reporting on EYA Quality Management Systems

9.8.1. As stated in last year' report, EYA is representing that audits conducted by the firm are in accordance with the Requirements. The firm invests heavily to ensure that this representation can be made with justification. As last year, AQRB has seen evidence of regular reporting on risk management issues by Q&RM to senior management. AQRB has made recommendations to further develop its reporting in line with the intent of the firm's global policy.

10. Overall Conclusion

10.0.1. EYA has established policies and procedures in Australia that are designed to enable it to conduct effective audits within the framework of current Australian legal and professional requirements. As a result of its 2007 review, AQRB has found no reason to believe that the QCR does not reflect, in all material respects, practice within the firm.

10.0.2. AQRB acknowledges the cooperation and assistance received from EYA management and those partners and staff who were involved in providing information for the review.

William Coad *

Robert Lynn *

* (Biographic details of the reviewers may be viewed on the AQRB website at www.aqrb.org.au)