



Australian Government
Financial Reporting Council

Parliamentary Joint Committee on Corporations and Financial Services: Inquiry into Regulation of Auditing

Submission

25 October 2019

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COVER LETTER



Australian Government
Financial Reporting Council

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25 October 2019

Committee Secretary
Parliamentary Joint Committee on Corporations and Financial Services
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Committee Secretary,

Inquiry into Regulation of Auditing

1. We welcome the opportunity to respond to the Inquiry into Regulation of Auditing of the Parliamentary Joint Committee on Corporations and Financial Services (PJC).

About the Financial Reporting Council

2. The Financial Reporting Council (FRC) is the peak body responsible for overseeing the effectiveness of the financial reporting system in Australia. The objectives of the financial reporting system include:
 - developing accounting standards that require the provision of information that is relevant, reliable, easy to understand, allows users to make and evaluate financial decisions, and assists directors to fulfil their statutory financial reporting obligations;
 - developing auditing and assurance standards that provide Australian auditors with relevant and comprehensive guidance in determining whether financial reports comply with statutory requirements, and require auditors' reports to be reliable and readily understood by users;

- facilitating the formulation and allocation of capital for the benefit of the Australian economy; and
 - maintaining investor confidence in the Australian economy, including its capital markets.
3. The FRC functions include providing broad oversight of the accounting and auditing standard setting processes for private and public sectors, as carried out by the Australian Accounting Standards Board (AASB) and the Auditing and Assurance Standards Board (AUASB), giving the Federal Minister reports and advice about such matters, and establishing appropriate consultative mechanisms. Specifically, the FRC functions include giving strategic policy advice and reports to the Federal Minister and professional accounting bodies in relation to the quality of audits conducted by Australian auditors.
 4. It is important to note that the FRC is an oversight body consisting of a part time Chair, and 9 part time members. The members have a range of expertise relevant to the financial reporting system, for both private and public sectors. The FRC has no employees and relies on support by Treasury for the provision of secretariat services. The FRC has also used Treasury for support with the '[Auditor Disciplinary Processes: Review](#)' and the AUASB for support implementing the [FRC Audit Quality Action Plan](#) (see below for more details). The FRC meets for one day four times per year.
 5. It is relevant to this inquiry that the PJC be aware that the role of overseeing audit quality by the FRC was introduced in 2012 by the *Corporations Legislation Amendment (Audit Enhancement) Act 2012*. Prior to 2012 the FRC's role included specifically overseeing audit independence, however this was removed in 2012.

Response to the Parliamentary Joint Committee

6. The FRC has been monitoring the debate about audit quality in Australia and internationally. The debate in Australia appears to be driven by concerns over audit quality and audit services resulting from the results of the ASIC Audit Inspection Program, the quantum of other services provided by the auditor, and from international debate (particularly the United Kingdom). The considerable debate in the United Kingdom is also the result of concerns stemming from several large corporate failures in that jurisdiction. The FRC believes it is important to monitor international developments to ensure best practices are adopted where they are appropriate for our circumstances including our legislative framework. However, it is important that any differences between jurisdictions are fully considered before adoption of international regulatory changes.
7. The expectation gap is also a factor in the debate over audit quality. There appears to be a difference between what some users expect from an audit and what the current regulation requires. The FRC is supportive of key stakeholders working together to explore how this difference can be addressed. It is important that this is considered with sufficient appropriate evidence to support any changes as any increase in scope of the audit results in increased cost.
8. In response to concerns that the ASIC Inspection Program findings indicating audit quality needs to improve, the FRC has been gathering evidence as to the extent of the audit quality issues. After the 2017 ASIC Audit Inspection Program findings and discussion with the former Minister for Revenue and Financial Services, the FRC concluded that it was premature to propose any legislative changes but that it would continue to monitor closely actions being taken and results achieved over the next year. Subsequently, the FRC Chair met with the Chairs and CEOs of each

of the Big 4 accounting firms and the CEOs of each of the professional accounting bodies to seek their observations on audit quality and their proposed actions. Those organisations sent formal written replies to the FRC following the meetings.

9. To obtain a broader perspective on audit quality, the FRC Chair also wrote to stakeholder organisations interested in financial reports to seek their views. Formal written replies were received from:
 - Australian Charities and Not-for-profits Commission (ACNC);
 - Australian Council of Superannuation Investors (ACSI);
 - Australian Institute of Company Directors (AICD);
 - Australian Prudential Regulation Authority (APRA);
 - Australian Shareholders' Association (ASA);
 - Association of Superannuation Funds of Australia (ASFA);
 - Australian Securities Exchange (ASX);
 - Institute of Internal Auditors — Australia (IIA); and
 - the Group of 100.
10. As part of fulfilling its role to provide strategic policy advice in relation to audit quality in Australia the FRC developed the [FRC Audit Quality Action Plan](#) in February 2018, to further identify and understand issues and to undertake appropriate actions. The FRC continues to implement this plan (refer to Term of reference # 4 for more detail on the specific actions undertaken to date).
11. Following the 2019 ASIC Audit Inspection Program findings the FRC issued an [FRC Statement on Audit Quality](#) which communicated that both the FRC and ASIC consider the results of the ASIC Audit Inspection Programs in 2017 and 2019 indicate further work and, in some cases, new or revised strategies are needed to improve audit quality. However, the FRC notes that there is no clear measure of 'audit quality' and is therefore supportive of ASIC reporting more audit quality measures and indicators. The FRC has also surveyed audit committee chairs, professional investors and CFOs of listed companies to seek their perceptions of audit quality.
12. The FRC acknowledges the response of the Big 6 accounting firms in Australia to the concerns over audit quality. These firms have informed us they are implementing additional accountability mechanisms, expanding their communication and education, and conducting analysis of the root causes of any weaknesses identified by the ASIC reviews.
13. Based on the findings of this plan to date, the FRC reported in its 2018-19 Annual Report that nothing has come to the FRC's attention from the other evidence to date from user surveys and targeted consultations that indicates external audits are not, overall, continuing to assist in maintaining trust and confidence in financial reports.
14. The FRC continues to view collective action by all stakeholders in the financial reporting system as key to improving audit quality.

15. We refer to Diagram 1 in Treasury's submission to the PJC (Submission 15), and to Figure 2 in ASIC's submission (Submission 16) which depict the stakeholders involved in the financial reporting system.
16. We also refer you to the submissions by Treasury and by ASIC which describe relevant regulation, which we do not duplicate in this submission.
17. The FRC is committed to exploring best practice initiatives to improve the quality of financial reporting and auditing, and would be pleased to take responsibility for overseeing recommendations resulting from this inquiry. In particular, there is a lack of evidence underlying many assertions made in the debate over audit quality in Australia, and the FRC will continue to encourage research to obtain such evidence, and would be pleased to oversee recommendations for research identified by this inquiry.
18. Following are responses to the specific Terms of Reference, which includes further information of the initiatives adopted by the FRC in its role in monitoring the quality of audits conducted by Australian auditors.
19. The FRC would also be pleased to appear in person before the PJC and is agreeable with this submission being made public.

Yours faithfully

A handwritten signature in blue ink that reads "Bill Edge". The signature is written in a cursive style with a large initial "B" and "E".

Bill Edge
Chair

Term of reference # 1: The relationship between auditing and consulting services and potential conflicts of interests

20. The auditor's role is to provide independent assurance over the financial report. Independence is the foundation of a high quality audit, and is important as it enables the auditor to be objective and impartial in making professional judgements.
21. Concern has been expressed that the provision of non-audit services by the auditor to audit clients impairs the auditor's independence.
22. There exists extensive regulation in *The Code of Ethics for Professional Accountants* (the Code) issued by the Accounting Professional and Ethical Standards Board (APESB), which addresses potential conflicts of interest. The Code is approximately 200 pages (with approximately 100 pages in the Independence Standards) and is in accordance with the International Code of Ethics prepared by the International Ethics Standards Board for Accountants (IESBA). The Code has the force of law.
23. The Code includes an extensive consideration of threats to compliance with the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. It also includes safeguards to eliminate the threats or reduce them to an acceptable level. The Code is principles based and also includes specific prohibitions and requirements on auditor independence and conflicts of interests. The Code has recently been enhanced in relation to non-audit services which are prohibited, and threats to independence and conflicts of interest. Internationally IESBA are currently looking at amending the non-audit services provisions in the International Code of Ethics to further increase confidence in the independence of audit firms.
24. There are also provisions in the *Corporations Act 2001*, auditing standards and accounting standards related to independence and non-audit services.
25. In order to comply with the regulations, accounting firms have implemented extensive policies and procedures. Directors, audit committees and management also have policies and processes in place when requesting auditors to provide non-audit services to ensure independence is not compromised, as well as a requirement for the Directors to include a statement in the Financial Report that they are satisfied that the auditor was independent.
26. ASIC considers possible auditor independence issues during its ASIC Audit Inspection Program when reviewing audit files, and reviewing firm policies and processes to avoid potential conflicts of interest. ASIC also reviews fees for non-audit services in the financial reports of the ASX 300 listed entities.
27. As detailed in Term of reference # 4, in 2018 the FRC in conjunction with the AUASB conducted a survey of Audit Committee Chairs (ACCs) of the ASX 300 to understand their views on audit quality. In response to the question "to what degree did the external auditor exhibit independence and objectivity?" ACCs rated their auditor 6.04/7 (1 representing low level of satisfaction, 4 is as expected, and 7 a high level of satisfaction) which provides some evidence that ACCs of the ASX 300 are very satisfied with the independence and objectivity of their auditor.

28. The FRC is supportive of robust processes to ensure that the provision of non-audit services to audit clients does not impair independence and audit quality. The FRC would also like to reiterate the importance of:
- maintaining a principles based approach to determining the appropriateness of non-audit services;
 - audit teams having access to the right specialists; and
 - audit teams not being prohibited from performing services which are complementary to the audit, for example regulatory returns.

Term of reference # 2: Other potential conflicts of interest

29. Long audit tenure is sometimes identified as a potential threat to auditor's independence. In Australia there are rules for partner rotation included in the *Code and the Corporations Act 2001* to ensure individual partners do not audit a client for a period which will impact independence.
30. Most overseas jurisdictions have partner rotation. Some overseas jurisdictions (such as the EU, South Africa) have introduced mandatory firm rotation to avoid excessively long relationships between the auditor and the client which may impact audit quality. However firm rotation may result in increased costs i.e. organisational disruptions, start-up costs, loss of client-specific knowledge, and could negatively impact audit quality. Some countries such as South Korea, Argentina and Brazil, have reversed their policies on audit firm rotation.
31. It is important that rotation (partner and firm) does not negatively impact audit quality. Any consideration on further action should be based on evidence, including that from other jurisdictions.

Term of reference # 3: The level and effectiveness of competition in audit and related consulting services

32. Whilst no significant concerns regarding competition for services have been brought to the attention of the FRC by stakeholders, we are aware that there is concern in the media about the dominance of the big accounting firms.
33. The FRC would like to bring to the PJC's attention recent Australian research conducted on the market structure of the audits of listed entities.¹ This research shows that the audit market for listed entities was highly segmented and supplier concentrated, but not increasingly so, over the period 2012-2018. The research breaks down listed entities between very large (Top 200), large (next 200 — 500), medium, and small (smallest 500) based on market capitalisation.
34. We refer you to the AUASB submission for an analysis of this research.

1 AUASB Research Report Number 3: Audit Market Structure and Competition in Australia: 2012-2018 Professor Elizabeth Carson, UNSW Sydney

Term of reference # 4: Audit quality, including valuations of intangible assets

35. Australia has comprehensive legislative and professional requirements concerning audit with the main legislative requirements set out in the *Corporations Act 2001*. ASIC is the key regulator under the *Corporations Act 2001* and has responsibility for the surveillance, investigation and enforcement of the financial reporting requirements of the *Corporations Act 2001*, including the regulation of audit requirements.
36. The FRC has been monitoring the audit quality debate both in Australia and internationally. The FRC, as with ASIC, considers the results of the ASIC Audit Inspection Programs in 2017 and 2019 indicate further work and, in some cases, new or revised strategies are needed to improve audit quality.
37. We would also like to note at this point that the ASIC Audit Inspection Program looks at a limited number of files, generally some of the more complex, demanding and challenging audits and focuses on higher risk audit areas, such that at ASIC's own admission in its 2019 Audit Inspection Program Report, caution is needed in generalising the results across the entire market.
38. In fulfilling its role to provide strategic policy advice in relation to audit quality in Australia, the FRC developed an FRC Audit Quality Action Plan in February 2018 with its objectives being to:
 - engage with users of financial reports to better understand their views on audit quality;
 - undertake appropriate actions on the learnings of the ASIC Audit Inspection Program to contribute to the continuous development of best practice programs to assess audit quality; and
 - engage with professional accounting bodies, firms providing audit services, and other stakeholders to support initiatives that improve audit quality.
39. This action plan is an ongoing process that relies on and involves many stakeholders, particularly ASIC, the AUASB, the accounting firms and the professional accounting bodies, to achieve the desired level of improvement in audit quality.
40. Key elements of the FRC Audit Quality Action Plan are set out below.

Surveys of users

41. The FRC and the AUASB conducted a survey of ASX top 300 Audit Committee Chairs (ACCs) in 2018 with the results released in September 2018. Surveys were distributed with the assistance of ASIC, the Australian Public Policy Committee (APPC) and the Big 4 accounting firms. There were 91 responses, and in responding to the question asking for an overall view of the external auditor, 38 per cent responded 'excellent' and 54 per cent responded 'above average'. It is intended that this survey be repeated in late 2019 or 2020.
42. The FRC and the AUASB conducted another survey in 2019 of professional investors with results released in April 2019. Surveys were distributed by the following bodies to their members:
 - Association of Superannuation Funds of Australia (ASFA);

- Corporate Reporting User Forum (CRUF);
 - Australian Council of Superannuation Investors (ACSI);
 - Financial Services Council (FSC); and
 - Australian Institute of Superannuation Trustees (AIST).
43. There were 47 responses and in responding to the question asking for an overall view of the auditor, 60 per cent responded 'above average' and 33 per cent responded 'average'.
44. The FRC and the AUASB are currently conducting a comparable survey of Chief Financial Officers with results expected to be released in late 2019. The survey was released with the assistance of the Group of 100, a group of CFOs drawn primarily from the ASX leading 100 companies.

Other specific actions

45. The FRC supports ASIC working on a response to the recent recommendation of the PJC in February 2019 that ASIC devise and conduct, alongside or within the current ASIC Audit Inspection Program, a study which will generate results which are comparable over time to reflect changes in audit quality. This is particularly important as there is no clear measure of 'audit quality' although there are many Audit Quality Indicators.
46. The FRC conducted a review of professional and academic literature internationally which identified over 30 Audit Quality Indicators with varying degrees of measurability. This review has assisted the FRC to contribute to the abovementioned ASIC study.
47. With the support of the FRC, the AUASB and ASIC have met and are working through a list of areas where more guidance may be required in the auditing standards. The AUASB has also continued to meet with each of the Big 6 accounting firms to understand areas where they believe more guidance may be required.
48. The FRC also conducted at the request of the PJC, an assessment of auditor disciplinary functions. The FRC's report *Auditor Disciplinary Processes: Review* is discussed under Term of Reference 10.

Term of reference # 5: Matters arising from Australian and international reviews of auditing

49. The FRC continues to monitor international developments to consider their relevance, if any, for Australia. The FRC would like to highlight the following:

Monitoring Group review of audit standard setting process

50. The Monitoring Group, a group of international financial institutions and regulatory bodies, which is responsible for the overall governance process for the development of international standards for audit, assurance, ethics and education, issued in November 2017 a Consultation Paper *Strengthening the Governance and Oversight of the International Audit-Related Standard-Setting Boards in the Public Interest*. This was in response to concerns about the international audit standard setting process, including concerns over the undue influence of the

auditing profession. In the Consultation Paper the Monitoring Group proposed reforms to the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA) in particular.

51. The FRC responded to this Consultation Paper welcoming the development of a public interest framework, encouraging a principles based approach to reforms, supporting members of the IAASB being a cross-section of stakeholders, supporting two separate boards to oversee auditing and assurance, and ethics, respectively, and noting that further details on the viability of alternative funding models needed to be provided. The consultation process continues and the FRC and the AUASB continue to monitor and contribute to this process.

United Kingdom (UK) reviews of auditing

52. The UK Competition and Markets Authority (CMA) and the Department for Business, Energy and Industrial Strategy (BEIS) are proposing significant reforms to the accounting profession in the UK. Also there is an *Independent Review of the Quality and Effectiveness of Audit* being conducted by Sir Donald Brydon, which is examining the purpose of audit and for whom it should be carried out, and whether its scope and purpose should be widened and strengthened to meet changing expectations of audit and a range of other matters.
53. A summary of policy reforms already adopted or being considered internationally is included as Appendix C in ASIC's submission (Submission 16).
54. The FRC is also monitoring the outcome of the *Independent Review of the Financial Reporting Council (UK)* conducted by Sir John Kingman that recommended that the FRC (UK) be replaced with an independent statutory regulator, which would be called the Audit, Reporting and Governance Authority. The UK government announced in December 2018 that it would take forward the recommendations set out in the review, which included a new organisation with new leadership, new mission, new powers and new funding. It should be noted that the current FRC (UK) is fundamentally different to the FRC in Australia, as it is the standard setter and the regulator, and is funded by the accounting profession.

Term of reference # 6: Changes in the role of audit and the scope of audit products

55. The FRC is supportive of further consideration as to the role and scope of the audit. The future of audit will be shaped by technological developments as well as by changes in the information demanded by investors and other stakeholders. A key area in which these will be reflected is likely to be, in the medium term, the requirements around management commentary.
56. Many entities continue to provide, and investors and other stakeholders are continuing to ask for, more information than is currently required in financial reports, including information on an entity's strategy, governance and business model, key resources and relationships, and social and environmental issues (known more broadly as 'Extended External Reporting' (EER). In June 2018, the FRC issued an *FRC Position Statement on External Reporting* stating that the FRC supports voluntary adoption of EER and will continue to monitor developments. There is no legislative requirement for EER or any assurance over this information.

57. The AASB and the AUASB see the development of the approach to EER as a key strategic objective, acknowledging the role both reporting and assurance can play in enhancing credibility and trust, and recognising that the information needs of report users are at the forefront of this thinking.
58. The AUASB has a well-established Assurance Framework that includes different types of assurance standards depending on the nature of reporting and the nature and extent of assurance required, that has the ability to provide assurance over EER. This framework includes standards for assurance over non-financial information.

Term of reference # 7: The role and effectiveness of audit in detecting and reporting fraud and misconduct

59. Whilst no significant concerns regarding the role and effectiveness of audit in detecting and reporting fraud and misconduct have been brought to the attention of the FRC by stakeholders, we acknowledge that this is an area where there is a gap between what users expect and what the auditor is required to do by regulation.
60. The role of the auditor is clearly set out in:
 - ASA 240 The Auditor's Responsibility Relating to Fraud in an Audit of a Financial Report; and
 - ASA 250 Consideration of Laws and Regulations in the Audit of a Financial Report.
61. Auditors have a responsibility to consider and assess the risk of material misstatement in the financial statements due to fraud and non-compliance with all laws and regulations (misconduct), and to obtain reasonable assurance that the financial report as a whole is free from material misstatement, whether caused by fraud or error. The auditing standards clearly state that the auditor cannot be expected to detect all fraud or all non-compliance with laws and regulations.
62. Auditors are also required to report contraventions and suspected contraventions of the *Corporations Act 2001* to ASIC including if they identify fraud or misconduct.
63. The primary responsibility for the prevention and detection of fraud and other misconduct is that of management and directors. There are inherent limitations in the auditor's ability to detect fraud and misconduct as they are often hidden through elaborate schemes and involve collusion.
64. We are aware that there is some consideration of expanding this responsibility in the United Kingdom in addition to current auditing standards requirements. Any expansion of the auditor's responsibilities to specifically consider fraud or misconduct needs to consider the cost and benefits of doing so.

Term of reference # 8: The effectiveness and appropriateness of legislation, regulation and licensing

65. The FRC provides the following comments on aspects of legislation and licensing which are relevant to its function.
66. The AASB have an ongoing project named the Australian Financial Reporting Framework Project which is being supported by the AUASB. The project covers all sectors of the economy and involves collaborating with other regulators to develop objective criteria on:
 - who prepares financial reports;
 - what needs to be reported; and
 - the nature and extent of assurance required on financial reports.
67. The project is aimed at improving the comparability, transparency, consistency and enforceability of financial reports prepared in accordance with Australian Accounting Standards (AAS).
68. Important also is the recent change to the financial thresholds that determine when a private company is considered 'large' for reporting purposes. The size thresholds were doubled by the Government in April 2019, effective for financial years beginning on or after 1 July 2019.
69. The FRC would also like to bring to the attention of the PJC, that in 2015, CA ANZ commissioned research by the University of Adelaide designed to identify when a Registered Company Auditor (RCA) designation was required for non-Corporations Act audits. The research also identified broader issues in relation to the requirements put on smaller businesses in Australia for accounts and audits. Specifically these are:
 - confusion over the prescribed qualifications of the person who provides audit or assurance services;
 - confusion about the scope of work and/or inappropriate scope of work; and
 - confusion and inappropriate definitions of the information being audited.
70. In total, 844 Commonwealth and State Acts were examined by the research. Accordingly, in June 2018 a joint letter of support was signed by the FRC, ASIC, the AUASB and the three accounting bodies to researchers from the University of Adelaide to explore, report, provide recommendations and initiate change on these complex legislation requirements. The FRC suggests that Australian parliaments may wish to consider these findings and recommendations as they develop over time.
71. This is a significant project which will span many years and accordingly is ongoing.
72. It does however indicate the need for caution if setting legislation without reference to the financial reporting and assurance frameworks of the AASB and AUASB.

73. We would also like to bring to the attention of the PJC the concerning fact that the number of RCAs has reduced from 6163 in 2004/05 to 4226 in 2017/18. Further examination of the reasons and impact of this change is warranted.

Term of reference # 9: The extent of regulatory relief provided by the Australian Securities and Investments Commission through instruments and waivers

74. No comments.

Term of reference # 10: The adequacy and performance of regulatory, standards, disciplinary and other bodies

75. With respect to the areas for which the FRC is responsible for oversight, specifically accounting standards, auditing standards and audit quality, the FRC believes regulation is appropriate (greater analysis is set out in the Annual Reports of the FRC) and has made no recent recommendations to the Minister.
76. The FRC's role as detailed in our cover letter includes monitoring the operation and effectiveness of the AASB and the AUASB and providing strategic directions. In our Annual Report 2018-19 we detail how we have fulfilled this responsibility and conclude that the FRC is satisfied that the AASB and the AUASB have implemented their directions to the extent practicable.
77. The audit inspection regime includes cooperation between ASIC and the professional accounting bodies. Each organisation conducts an inspection or review program which encompasses audit engagements. Each of the programs is different and complementary to manage different risks, participants and types of engagement, and to maintain a focus on audit quality.
78. The FRC Chair met in July 2019 with the CEOs of each of the accounting bodies and asked that the accounting bodies collaborate with each other and with ASIC to enable sharing of best practices of audit inspection programs. This is particularly important as ASIC's Audit Inspection Program covers only audits of listed entities and other public interest entities, whereas the audit inspection programs of the accounting bodies cover all entities.
79. In November 2018 the Government requested that the FRC conduct an assessment of auditor disciplinary functions in Australia. This was in response to the PJC *Report on the 2016-17 Annual Reports of Bodies Established under the ASIC Act*. The report recommended that the Government review the adequacy of auditor disciplinary functions.
80. The FRC's Review was conducted over a period of four months, using evidence provided by the Australian Securities and Investments Commission (ASIC), the Companies Auditors Disciplinary Board (CADB), Chartered Accountants Australia and New Zealand (CA ANZ), CPA Australia and the Institute of Public Accountants (IPA).
81. The FRC's report *Auditor Disciplinary Processes: Review* was presented to the Government in March 2019. It included 18 recommendations relating to:

- ASIC detection, investigation and enforcement processes, including that ASIC outline how their 'why not litigate' enforcement strategy will apply to misconduct by Registered Company Auditors (RCAs);
- CADB processes, including adopting a less formal and more timely approach to the carriage of CADB matters;
- ASIC's Audit Inspection Program, including publishing the results of audit inspections in greater detail, in particular naming firms, and for ASIC to be given the power to compel remediation of defective audits; and
- Professional accounting bodies processes, including formalising processes for advising each other and the FRC of their disciplinary proceedings.

82. In its response the Government agreed or supported all but one of the recommendations.

83. We would welcome the PJC's support of the recommendations also.

84. Finally, as noted in ASIC's submission (Submission 16), no Australian regulator currently undertakes surveillance of the financial reports of Regulated Superannuation Entities (RSEs) or inspects the audits of those reports. The FRC supports the current priority by Government to give ASIC such powers.

Term of reference # 11: The effectiveness of enforcement by regulators

85. This is covered in the above mentioned FRC report *Auditor Disciplinary Processes: Review*.

Term of reference # 12: Any related matter

86. Research of financial reports is vital to work of the FRC, AASB and the AUASB in respect of the nature and quality of financial reporting and of auditing.

87. Such research would be enhanced if:

- financial reports lodged with ASIC were in a digital format to enable more efficient and effective analysis; and
- access to financial reports lodged with ASIC was free of charge to the FRC, AASB or AUASB.

88. We would welcome the support of the PJC on the above matters.

Summary of Initial Recommendations Pending Inquiry Outcomes

Recommendation 1

89. PJC to support collective action by all stakeholders in the financial reporting system as key to improving audit quality.

Recommendation 2

90. PJC to make recommendations for any legislative change subject to commissioning of appropriate research/evidence collation regarding costs/benefits and unintended consequences, and to delegate to the FRC the role to oversee such research.

Recommendation 3

91. PJC to support the FRC, AASB and AUASB in continuing to obtain evidence regarding the need for mandatory accounting and auditing requirements relating to Extended External Reporting.

Recommendation 4

92. PJC to support further examination by ASIC of the reasons and impact of the reduction in the number of Registered Company Auditors (RCAs).

Recommendation 5

93. PJC to support the FRC in requesting the three Professional Accounting bodies collaborate with each other and with ASIC to enable sharing of best practices of audit inspection programs.

Recommendation 6

94. PJC to support the FRC's *Auditor Disciplinary Processes: Review* recommendations which were agreed by the Government.

Recommendation 7

95. PJC to support the Government giving ASIC power to undertake surveillance of the financial reports of Regulated Superannuation Entities (RSEs) and to inspect the audits of those reports.

Recommendation 8

96. PJC to support:
- lodging of financial reports with ASIC in a digital format; and
 - access to financial reports lodged with ASIC being free of charge to the FRC, AASB and AUASB.