

14 February 2020

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

By email to:

Dear Parliamentary Joint Committee

**Questions on Notice for CPA Australia at 7 February 2020 Hearing of the Parliamentary Joint Committee (PJC) on Corporations and Financial Services Inquiry Regulation of Auditing in Australia**

CPA Australia appreciated the opportunity to provide evidence at the PJC's hearing on 7 February 2020. This letter is in response to questions on notice received at that hearing.

In the Attachment to this letter we have quoted the questions on notice in the Hansard transcript and provided our responses.

If you require further information on the views expressed in these responses on notice, please contact me, Dr Gary Pflugrath, Executive General Manager, Policy and Advocacy on \_\_\_\_\_ or at \_\_\_\_\_ or Claire Grayston, Policy Adviser – Audit and Assurance, on \_\_\_\_\_ or at \_\_\_\_\_.

Yours sincerely

Dr Gary Pflugrath  
Executive General Manager, Policy and Advocacy

Enc. Attachment

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**CPA Australia's Responses to Questions on Notice**  
**PJC Inquiry into the Regulation of Auditing in Australia**  
**Hearing 7 February 2020**

**Evidence of Claire Grayston & Dr Gary Pflugrath, CPA Australia**

**1. Technology**

*Hansard extract 7/2/20 p.17-18: Senator O'NEILL: Around changes to technology to make things a lot more accessible. If such changes as were discussed here this morning were implemented, how would that change what you have just described, in terms of the need to do risk-based assessment rather than a 100 per cent sweep?*

....

*Senator O'NEILL: Just the next level—how those two levels might interact. If there is a capacity for technologies to change, that second level as well? On notice.*

**CPA Australia's Response:**

We note that Senator O'Neill asked a number of questions earlier during our evidence about CPA Australia's recommendation for mandatory electronic lodgement of financial reports to ASIC and removal of ASIC registry fees to access those financial reports. Whilst this question on notice links the accessibility of the data lodged electronically with the audit procedures, these are largely distinct issues which need to be considered separately. We consider that there are significant benefits to capital markets which would accrue from electronic lodgement, through the free-flow of financial information, including information transparency and comparability of data. Nevertheless, the electronic lodgement of financial reports by companies does not directly impact the auditor's procedures as lodgement follows the completion of the auditor's work. Nevertheless, we surmise that this question seeks to understand the impact of technology on how the audit is conducted and whether a risk-based approach is still required even when audit testing encompasses the entire population.

We acknowledged in our submission (p.9) that emerging technologies provide opportunities to improve audit outcomes by providing a more robust audit process, and some argue, a higher level of assurance. However, we did caution that "the current consistency and availability of technologies are not such that use of any particular tools can be mandated."

CPA Australia recognises that emerging technologies such as Robotic Process Automation (RPA), Artificial Intelligence (AI), Data Analytics (DA), Machine Learning (ML) and Blockchain Technology (BT) are altering the auditing environment substantially. These emerging technologies have the capacity to improve the efficiency of the auditing process, and its effectiveness, by producing higher quality audit evidence, including enabling auditors to undertake full-population testing and reducing human intervention. We understand that increasingly, audit firms are seeking to leverage available technology, and as a result, some audits are highly automated. Nevertheless, when adopting new technology it is essential that auditors are confident in the reliability and relevance of the evidence produced by that technology and that the technique satisfies the auditing standards.

To rely on the evidence produced by technology, auditors need to have a clear understanding of the systems and controls inherent in that technology and the data it is analysing. For example, inadequate cybersecurity may impact the quality of the audit evidence, if unauthorized access to data is possible which may enable the deletion or manipulation of data. This would undermine the value of any evidence produced regardless of the sophistication of the technology applied. Therefore, analysis of

data, the derivation of which is not well-understood, could have negative consequences on audit quality. For example, full-population testing can be undermined by the client's business software programs inaccurately processing data, processing inaccurate data or both. In this regard, it is important to emphasise that being able to test 100% of the population does not imply that auditors are able to provide assurance that goes beyond a reasonable assurance opinion or that the meaning of "reasonable assurance" changes ([IAASB, 2016](#)). In this regard, caution should be exercised regarding the auditor's potential "overconfidence" in technology, whereby auditors falsely believe the evidence to be infallible just because software produced that evidence.

While the use of emerging technologies offers opportunities for the auditor to obtain a more effective and robust understanding of the entity, enhancing the quality of the auditor's risk assessment and response, emerging technologies – whether used by entities for reporting purposes or by auditors for auditing purposes – do not replace the need for auditors' professional judgement and professional scepticism. For example, financial statements of many entities contain significant amounts and disclosures that are accounting estimates. Professional judgment is necessary to assess the reasonableness of those entities' estimated values and disclosures of those items.

## 2. Director's Statements regarding Auditor Independence

Hansard extract 7/2/20 p.19: Ms HAMMOND: Is there a specific requirement for directors, when they sign off on the financial accounts, that they have also assured themselves of the independence of the auditors?

CPA Australia's Response:

Directors of listed companies are required under the *Corporations Act 2001* to make a number of statements in relation to the auditor's independence and non-audit services provided. The requirements are summarised in ASIC [Information Sheet 196](#) *Audit quality: The role of directors and audit committees*. The *Corporations Act 2001* requirements [highlighting added] are:

"Section 300

(11B) *The report for a listed company must also include the following in relation to each auditor:*

- (a) *details of the **amounts paid or payable to the auditor for non-audit services provided**, during the year, by the auditor (or by another person or firm on the auditor's behalf);*
- (b) *a **statement whether the directors are satisfied** that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the **general standard of independence for auditors** imposed by this Act;*
- (c) *a **statement of the directors' reasons for being satisfied** that the provision of those non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) did not compromise the auditor independence requirements of this Act.*

*These details and statements must be included in the directors' report under the **heading "Non-audit services"**. If consolidated financial statements are required, the details and statements must relate to amounts paid or payable to the auditor by, and non-audit services provided to, any entity (including the company, registered scheme or disclosing entity) that is part of the consolidated entity.*

(11C) *For the purposes of paragraph (11B)(a), the details of amounts paid or payable to an auditor for non-audit services provided, during the year, by the auditor (or by another person or firm on the auditor's behalf) are:*

- (a) *the name of the auditor; and*
- (b) *the dollar amount that:*
  - (i) *the listed company; or*
  - (ii) *if consolidated financial statements are required--any entity that is part of the consolidated entity; paid, or is liable to pay, for each of those non-audit services.*

(11D) *The statements under paragraphs (11B)(b) and (c) must be made in accordance with:*

- (a) *advice provided by the listed company's audit committee if the company has an audit committee; or*
- (b) *a resolution of the directors of the listed company if paragraph (a) does not apply.*

- (11E) For the purposes of subsection (11D), a statement is taken to be made in accordance with advice provided by the company's audit committee only if:
- (a) the statement is consistent with that advice and does not contain any material omission of material included in that advice; and
  - (b) the advice is endorsed by a resolution passed by the members of the audit committee; and
  - (c) the advice is written advice signed by a member of the audit committee on behalf of the audit committee and given to the directors.”

**Illustration:**

An illustration of the section which might appear in the Directors' Report of a listed company in Australia is:

**Directors' Report – Extract**

**Auditor independence and non-audit services**

The directors received the following declaration from the auditor of [Company] Limited.

**Auditor's Independence Declaration to the Directors of [Company] Limited**

As lead auditor for the audit of [Company] Limited for the financial year ended [Date], I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of [Company] Limited and the entities it controlled during the financial year.

Signed by Audit Firm & Auditor

[Date]

**Non-audit services**

The following non-audit services were provided by the entity's auditor, [auditor name]. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

[Auditor name] received or are due to receive the following amounts for the provision of non-audit services:

- Tax compliance services
- Assurance related
- Non-assurance services [specify]

### 3. Audit committee's minimum education and financial literacy

Hansard extract 7/2/20 p. 20: Mr GORMAN: you suggest that we should have some minimum education and financial literacy standards for members of audit committees. What would your view be, as a CPA or personally, in terms of what those minimum standards should be?

#### CPA Australia's Response:

We recommended in our submission that the PJC "Consider the need for enhanced requirements for minimum educational standards, financial literacy and diversity for Boards and audit committees." We note that this was in the context of an analysis of the causal factors for corporate failure or fraud, discussed on p.8 of our submission.

The recommendations in the [ASX Corporate Governance Guidelines and Recommendations](#) (ASX CGGR) are mandatory for S&P/ASX 300 companies (ASX Listing Rule 12.7). Whilst the ASX CGGR include in recommendation 4.1 that listed entities have: an audit committee which consists solely of non-executive directors, a majority of whom are "independent" and is chaired by an independent director, and that the board should disclose the relevant qualifications and experience of the members of the audit committee; it does not specify what the minimum qualifications or experience should be. The commentary in the ASX CGGR recommendation 4.1 does provide some guidance as it states that "the audit committee should be of sufficient size and independence, and its members between them should have the accounting and financial expertise and a sufficient understanding of the industry in which the entity operates, to be able to discharge the committee's mandate effectively." In addition, ASIC provides guidance on the financial knowledge needed by Directors in [INFO 183 Directors and financial reporting](#).

If the root cause analysis indicates that audit committees' composition could be strengthened, this may be achieved through elevating the commentary in the ASX CGGR on the audit committee's expertise referred to above, to be part of the recommendation 4.1 itself. In addition, the recommendations could be more specific by requiring one member to be a financial expert and all members to have knowledge and experience comprising relevant industry knowledge, understanding of internal controls over financial reporting, relevant financial reporting and accounting issues and critical accounting policies. This could be coupled with periodic review of audit committee composition. Guidance on assessing this knowledge and experience would need to be developed and the necessary attributes of a "financial expert" defined.

We also reiterate that we recommended consideration of the need for diversity on boards and audit committees, to increase diverse perspectives and counter cultural constraints such as "groupthink". This may be achieved by way of ASX Corporate Governance Guidelines and recommendations rather than quotas.

#### **4. Advice sought by EY from CPA Australia on CPS 220 conflict of interest**

*Hansard extract 7/2/20 p. 21: Senator O'NEILL: Could you take it on notice and have a look at that with regard to the four banks and CPS 220 as to whether any advice was sought by EY with regard to their eligibility or whether a perceived conflict of interest might have been part of it.*

##### CPA Australia's Response:

Whilst some CPA Australia members do work at EY, none of our members who are registered company auditors and hold a CPA Australia public practice certificate work at EY in Australia; according to the information members provide to us with their annual membership renewal. Therefore, we are confident that none of our members was involved on the EY audit of NAB at the senior level. CPA Australia's policy team, to whom all technical queries on audit, assurance or ethics will be referred, have not received any queries from EY with respect to provision of audit services to NAB or risk management framework comprehensive reviews for any of the Big 4 banks. In addition, according to CPA Australia's client management system, CPA Australia has not received a query from CPA Australia members working at EY regarding the NAB audit or provision of the comprehensive review of any bank's risk management framework under CPS 220. An analysis of contact with CPA Australia members working at EY on our client management system found those contacts to be routine member queries and activity, such as attendance at professional development or other events.

## 5. CPA disciplinary action against auditors

Hansard extract 7/2/20 p.22: *Senator O'NEILL: Are you aware of any significant fines or major deterring action that has been undertaken by CPA in recent years?*

### CPA Australia's Response:

There have been no significant fines or major deterring action taken against members by CPA Australia in relation to auditing breaches in Australia in the last two years. However, CPA Australia's Disciplinary Tribunal did make the following findings against:

- Registered company auditors:
  - o 2019: 1 adverse finding resulting in forfeiture of membership for failure to complete CPA Australia's Quality Review.
  - o 2018: 1 adverse finding resulting in forfeiture of membership for failure to complete CPA Australia's Quality Review.
- SMSF auditors:
  - o 2019: 2 adverse findings resulting in:
    - 1 forfeiture of membership for 2 years and completion of an ethics course prior to readmission for an adverse finding by ASIC in relation to lack of independence.
    - 1 severe reprimand and a fine for lack of supervision of a Financial Services Representative.
  - o 2018: 6 adverse findings resulting in:
    - 1 severe reprimand and requirement to complete an ethics course for lack of independence, based on an ASIC adverse finding.
    - 1 forfeiture of membership for failing to hold a Public Practice Certificate (PPC), until PPC obtained.
    - 1 forfeiture of membership for failing to respond to a complaint.
    - 1 severe reprimand, admonishment and requirement to complete compliant Quality Review for breaches of confidentiality and professional care.
    - 1 forfeiture of membership for 10 years, severe reprimand, fine, requirement to complete a compliant Quality Review and provide evidence monies have been repaid to clients, for missing ATO SMSF Tax Refund Monies from Trust Account.
    - 1 forfeiture of membership for Quality Review failures.

Should the PJC require further information on CPA Australia's complaints and disciplinary process, that process is described in the FRC's Report [Auditor Disciplinary Processes: Review](#) pages 59-62.

## 6. Joint audits impact

Hansard extract 7/2/20 p.22: *Senator O'NEILL: Just on notice, in the interests of time, if I could: in your submission, you make a claim that you consider joint audits... to be an extreme measure. I'd like to understand more fully... why you think that would be detrimental in the Australian context? Could you also turn your minds to the Competition and Markets Authority recommendation in the UK about joint audit, and your rejection of that?*

### CPA Australia's Response:

In our submission we did not reject joint audits as such, but did describe the imposition of joint audits as an “extreme measure” as it will almost certainly result in an increase in audit fees without evidence that this measure would enhance audit quality. In order to jointly sign an audit opinion both signing auditors need to be satisfied that sufficient appropriate audit evidence has been obtained, so there would necessarily be some duplication of effort and assessment of that evidence. Joint audits would be a measure introduced to create a significant change to competition in the audit market in a short timeframe. As such, we suggest that firstly a clear need for greater competition in the Australian audit market would need to be established to justify such a measure. The proposal made by the CMA in the UK was in response to competition concerns, whereas Australia has a relatively healthy level of competition (based on Carsen's research for the AUASB), even though there is concentration in the Big 4 for audits of the ASX 200. A firm needs a certain size, industry specialisations and international capacity to conduct audits for many of the largest Australian companies, which mid-tier firms may not necessarily meet, so concerns regarding competition will need to consider the capacity of other firms to service the clients impacted.

## 7. Relevance of the UK and US system to Australia

Hansard extract 7/2/20 p.22: Senator O'NEILL: Finally, could you look at the ASIC submission. They provided the committee with options of the UK and the US system. The US system is somewhat more arbitrary, and uses a different structure. Could you give your view about how that might fit into the Australian context?

### CPA Australia's Response:

We understand Senator O'Neill is referring to Table 6 from the ASIC Submission # 16, so we have replicated ASIC's table [shaded below] and added CPA Australia's views regarding the applicability of these measures to Australia.

### **Amended ASIC submission Table 6: Some pros and cons of policy reforms considered internationally**

<b>Reform proposals [ASIC submission]</b>	<b>Pros [ASIC submission]</b>	<b>Cons [ASIC submission]</b>	<b>Applicability to Australia CPA Australia's views</b>
<p>Annual reports by management and auditors on internal controls for larger listed entities, similar to the US requirements introduced under SOX:</p> <p>Sarbanes-Oxley Act of 2002, s302 and 404; and PCAOB Auditing Standard No. 2201 An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements</p>	<ul style="list-style-type: none"> <li>• Evidence in the United States suggests the annual reports by management and auditors on internal controls have led to improved internal controls for processes supporting financial reporting, and to improved financial reporting and audit.</li> <li>• The reports and underlying processes are likely to result in increased confidence in audited financial reports and assist companies in accessing capital.</li> </ul>	<ul style="list-style-type: none"> <li>• There are costs associated with preparation of such reports. However, these associated costs need to be weighed against the benefits, particularly for large listed entities.</li> </ul>	<p>CPA Australia supported in our submission the introduction of an internal controls reporting regime for listed or public interest entities modelled on US "SOX", with less prescriptive requirements to minimise regulatory impact ("SOX-light"), with the addition of controls to address assessed fraud risks. This would provide a more robust basis for accurate and reliable financial reporting and increase the likelihood of identifying and addressing fraud, particularly if controls to address fraud risks were specifically addressed.</p>

Reform proposals [ASIC submission]	Pros [ASIC submission]	Cons [ASIC submission]	Applicability to Australia CPA Australia's views
Auditors prohibited from providing consulting services to their audited listed entities	<ul style="list-style-type: none"> <li>• It reduces any actual or perceived conflicts of interest and enhances confidence in the independent audit and reliability of financial reports.</li> <li>• It has been implemented voluntarily by firms in the United Kingdom for the FTSE 350.</li> </ul>	<ul style="list-style-type: none"> <li>• It may increase complexity in changing auditors in some cases, as potential auditors may be conflicted through provision of consulting services.</li> <li>• For some types of services, synergies might be lost that may lead to inefficiencies in the provision of audit services to the audited entity.</li> <li>• For some types of services, there may be a more limited pool of consulting firms for companies to choose from.</li> </ul>	<p>In our submission, we recommended that there be better differentiation between non-assurance services (NAS) which need to be conducted by the auditor of the entity and NAS which could give rise to a conflict of interest and consequently a threat to independence that needs to be mitigated. We also suggest that this would be critical if a prohibition on consulting services to audit clients were introduced to ensure that audit-related services were not inadvertently prohibited. We suggest that before considering a blanket prohibition on NAS the sufficiency of existing prohibitions and anticipated prohibitions arising from <a href="#">IESBA's proposed amendments to the Code of Ethics</a>, currently on exposure, be evaluated.</p> <p>Better disclosure in companies' financial reports of fees paid to the audit firms in consistent and meaningful categories would also be of assistance in informing stakeholders about potential conflicts of interest.</p>
A functional split of audit services and other services provided by audit firms	<ul style="list-style-type: none"> <li>• A functional split allows audit to be the core focus of a firm, which may increase the focus on audit quality in the absence of competing, potentially lucrative and growing service lines.</li> </ul>	<ul style="list-style-type: none"> <li>• It may negatively affect audit quality as firms will no longer have ready access to, and quality control over tax, valuation and other experts to support the audit.</li> <li>• Internal service providers</li> </ul>	<p>In our submission, we questioned the need to separate operations that provide audit services from those providing NAS services within the firms, primarily as there may be unintended consequences, including reduced access to experts within the firm. This proposal interprets perceived threats as arising from NAS provided to non-audit clients, in addition to NAS provided to audit clients. We suggest that the</p>

Reform proposals [ASIC submission]	Pros [ASIC submission]	Cons [ASIC submission]	Applicability to Australia CPA Australia's views
	<ul style="list-style-type: none"> <li>• A split removes the possibility of any perceived lack of independence should there be reliance on subsidisation of audit by other services.</li> </ul>	<p>may better understand requirements for the audit.</p> <ul style="list-style-type: none"> <li>• The existence of other services may provide audit staff with work opportunities in other areas and increase the ability of audit firms to attract and retain staff.</li> </ul>	<p>focus should be on ensuring that the prohibitions on NAS provided by the auditor are clear.</p>
Remove capping of liability for auditors	<ul style="list-style-type: none"> <li>• Increasing the financial risk to an auditor where their work is deficient may enhance an auditor's focus on potential harms to investors.</li> </ul>	<ul style="list-style-type: none"> <li>• Without capping of liability, audit may be less profitable and less attractive as a career to staff and partners.</li> </ul>	<p>The Professional Standards Scheme approved by the Professional Standards Councils, independent statutory bodies of the Australian state and territory governments, provides liability capping for CPA Australia's members who are professional practitioners in Australia. The liability capping is provided by way of a legal instrument that may limit civil claims to the level of professional indemnity insurance (PII) public practitioners are required to hold.</p> <p>Removing that liability cap would result in a significant increase to PII, a cost which would most likely flow on to clients. We suggest that the consequences for auditors of being found negligent or to be fraudulent in a criminal or civil court or disciplinary action, are proportionate to the severity of the matter, and therefore should act as a sufficient deterrent.</p>

Reform proposals [ASIC submission]	Pros [ASIC submission]	Cons [ASIC submission]	Applicability to Australia CPA Australia's views
Mandatory audit firm rotation for larger listed entities over 10 to 15 years	<ul style="list-style-type: none"> <li>• It addresses the perception of loss of independence due to longstanding professional association with an audited entity.</li> <li>• Firm rotation brings fresh minds to challenge adequacy of audit evidence, accounting treatments and estimates.</li> <li>• A new auditor will not be concerned about challenging treatments accepted in the past.</li> <li>• A new auditor will invest time to become familiar with the business and conduct a quality audit.</li> <li>• Firms will make the investment necessary to ensure that audit quality is maintained where audits</li> </ul>	<ul style="list-style-type: none"> <li>• A new audit firm will need to invest more time in the first audit to understand the business, assess risks and design appropriate audit responses, which may impact audit quality.</li> <li>• Mandatory firm rotation would increase the number of audit tenders by companies. The process undertaken by an audit firm in tendering for audits involves significant time by the firm and can divert audit resources from conducting quality audits.</li> <li>• The small number of large firms may limit choice of auditors, particularly for large banks. Audit firms may also be unable to tender because they provide significant non-audit</li> </ul>	<p>We noted in our submission that mandatory audit firm rotation has been introduced in some countries, including under the EU Directive<sup>1</sup> which has a maximum 10-year mandatory firm rotation extending to a maximum of 20 years if a public tender is conducted. However, it has been discontinued in other jurisdictions (e.g., in certain circumstances in South Korea, Singapore, and Brazil) or considered and rejected in others (e.g., USA). It is argued that while audit firm rotation may improve stakeholders' perception of independence, it may negatively impact audit quality during the initial phase when the auditor is gaining an understanding of the client. Academic research on the topic is mixed, but generally it shows that audit firm rotation may not be effective in enhancing perceptions of independence or audit quality.<sup>2 3</sup> In fact, much of that research finds that longer tenure is associated with quality and the early years of tenure with relatively lower audit quality. In Australia, being a relatively small capital market with companies geographically widely spread, mandatory firm rotation could result in difficulties in some companies finding a suitable auditor with the</p>

<sup>1</sup> [Regulation \(EU\) No 537/2014](#) and [Directive 2014/56/EU](#) of the European Parliament and of the Council of the European Union.

<sup>2</sup> ['Mandatory audit firm rotation and audit quality' \(2008\)](#) and ["Does mandatory audit firm rotation enhance auditor independence? Evidence from Spain" \(2009\)](#).

<sup>3</sup> European Parliament Study; [EU Statutory Audit Reform Impact on costs, concentration and competition](#).

Reform proposals [ASIC submission]	Pros [ASIC submission]	Cons [ASIC submission]	Applicability to Australia CPA Australia's views
	<p>change hands.</p> <ul style="list-style-type: none"> <li>• It may address perceptions that partners are less willing to challenge accounting treatments and estimates due to the risk to their remuneration and reputation within a firm should the challenge result in the loss of the audit.</li> </ul>	<p>services to the entity.</p> <ul style="list-style-type: none"> <li>• A long-term relationship with the audited entity's management can facilitate cooperation and information sharing to enhance the effectiveness of the audit function.</li> <li>• Partner rotation might be sufficient to bring a fresh mind to an audit.</li> <li>• There is often a turnover of auditors and client staff over time anyway.</li> <li>• Uncertainty around future audit engagements may affect a firm's ability to undertake long-term resource planning.</li> <li>• The loss of a major client may result in the loss of key staff and expertise within a firm.</li> </ul>	<p>appropriate specialisations in required locations.</p> <p>Consequently, our submission instead recommended (recommendation 1.3) consideration of guidance on periodic audit tendering for listed entities. The reason for this recommendation is that, as there is a lack of evidence to support the view that audit firm rotation improves audit quality and given that auditor rotation is already in place, consideration might be given to adopting as best practice, audit tendering at reasonable intervals. This could be done through ASX listing rules or Corporate Governance Principles and Recommendations. For example, suggesting tenders every 10 years may be worth exploring to avoid very long tenures which create a lack of perceived independence.</p>
<p>Joint audits of larger listed companies by a large audit firm and a</p>	<ul style="list-style-type: none"> <li>• It may create opportunity for smaller firms to grow, thus increasing choice in audit</li> </ul>	<ul style="list-style-type: none"> <li>• A lack of clarity on responsibilities between joint auditors may lead to</li> </ul>	<p>This has been addressed in response to question on notice 6 above.</p>

Reform proposals [ASIC submission]	Pros [ASIC submission]	Cons [ASIC submission]	Applicability to Australia CPA Australia's views
small audit firm for larger listed entities	markets.	<p>ineffective coordination and to gaps and overlaps in audit work.</p> <ul style="list-style-type: none"> <li>• The larger firm may undertake most of the audit work and may also have greater influence in the audit.</li> <li>• Each firm may be perceived to have an incentive not to challenge management on accounting treatments or estimates to win additional work.</li> </ul>	
Regulator to appoint auditors and/or set audit fees	<ul style="list-style-type: none"> <li>• It would remove any actual or possible inappropriate pressure on an auditor because of management influence over appointment of the auditor and setting of fees.</li> </ul>	<ul style="list-style-type: none"> <li>• It would require substantial regulatory resources and be a 'world first experiment'.</li> <li>• It raises capability and moral hazard issues.</li> <li>• There may be a perception that a regulator has a conflict in selecting auditors who they must then regulate.</li> </ul>	<p>We did not address this proposal in our submission but note that this would create a significant impost on the regulator required to conduct auditor appointments, ASIC may be conflicted in appointing auditors given that they undertake the audit inspection program. Also, the proposal would require appropriate Government funding. We suggest that it would be more practical to ensure that audit committees' responsibilities for the appointment and oversight of auditors are clearly established and strengthened if required.</p> <p>If a regulator negotiated audit fees, it may provide greater confidence that the auditor was paid an</p>

<b>Reform proposals [ASIC submission]</b>	<b>Pros [ASIC submission]</b>	<b>Cons [ASIC submission]</b>	<b>Applicability to Australia CPA Australia's views</b>
			adequate fee to conduct a quality audit. A more practical solution would be electronic lodgement and free access to financial reports which would enable analysis of relative audit fees charged. Suspected low-balling of audit fees could be followed up by ASIC in the audit inspection program.
Regulator to oversee audit committee role in appointing auditors and setting audit fees	<ul style="list-style-type: none"> <li>• Responsibility is placed on the directors to represent investor interests and bring to bear their knowledge of the entity and its business operations.</li> <li>• It reinforces the role of directors in supporting audit quality on an ongoing basis.</li> </ul>	<ul style="list-style-type: none"> <li>• It would require additional regulatory resources that would increase costs to companies and ultimately investors.</li> <li>• It raises capability and moral hazard issues.</li> </ul>	Strengthening of the audit committee's oversight of the external auditor may be a more pragmatic response to concerns about auditor appointments and fees, rather than regulatory oversight of audit committees. This could be achieved by strengthening the existing obligations included in the ASX Listing Rules and ASX Corporate Governance Guidelines and Recommendations, or by requiring additional reporting by audit committees on their auditor oversight.
Auditors to detect immaterial fraud	<ul style="list-style-type: none"> <li>• Close any expectation gap as to the auditor's role to detect immaterial fraud.</li> <li>• In some cases, data analytics may help in detecting immaterial fraud.</li> </ul>	<ul style="list-style-type: none"> <li>• The scope of audit work would need to be significantly expanded. This would involve significant costs that would ultimately be borne by investors.</li> </ul>	<p>We do consider that fraud needs to be more directly addressed. However, it would not be cost effective for the external auditor to be responsible for detecting immaterial fraud. Robust systems and controls are the most effective way of detecting fraud, whether material or immaterial. We have recommended that an internal controls reporting regime, which requires assurance, is introduced for listed entities or public interest entities. We recommend that this would include controls to address assessed fraud risks.</p> <p>In addition, we have recommended that fraud is</p>

Reform proposals [ASIC submission]	Pros [ASIC submission]	Cons [ASIC submission]	Applicability to Australia CPA Australia's views
			<p>directly addressed by root cause analysis of underlying causes of corporate failures and incidence of significant fraud. These root causes may be failings in internal controls, governance or financial reporting, inadequate audit, poor understanding of business risk, failure to mitigate business risks or other causes. Remedial measures, whether legislative, regulatory or voluntary, need to address the underlying causes identified. We would anticipate that this analysis would be conducted by ASIC or another Government body and would be on-going.</p>
<p>Assurance on non-financial information (e.g. integrated reporting, sustainability reporting)</p>	<ul style="list-style-type: none"> <li>• It would increase user confidence in non-financial information disclosed.</li> </ul>	<ul style="list-style-type: none"> <li>• Premature in the absence of a sufficient reporting framework against which an audit can be conducted.</li> <li>• Auditors may be unable to provide positive assurance on certain forward-looking and other information.</li> <li>• Audit may limit innovation if companies become too focused on how readily information can be audited when developing reporting for non-financial information.</li> </ul>	<p>Whilst it may be premature to mandate integrated reporting or sustainability reporting and assurance on that reporting, nevertheless we consider that there is a need for assurance on all of the information presented in the annual report, which includes non-financial information. As set out in our submission, this could be achieved by restricting information presented in annual reports to information which is audited or assured, so that the level of reliance which can be placed on that information is clear. This would include assurance on the operating and financial review to the extent forward-projecting information can be assured. Assurance on forward-projecting information can be focussed on the reasonableness of the underlying assumptions, preparation in accordance with the disclosed basis of preparation and whether it is reasonable overall. Information</p>

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			which is not assured or audited could be reported by companies through other means separate to the annual report.
Audits of culture at companies	<ul style="list-style-type: none"> <li>• It would increase user confidence in information disclosed.</li> </ul>	<ul style="list-style-type: none"> <li>• Premature as there is no reporting framework against which the audit can be conducted.</li> <li>• It is difficult to assess the mindset of individuals and how they are embodying the culture of the company.</li> </ul>	<p>Assurance on culture may be possible, but preferably that assurance would be provided on a Directors' report on the company's culture, prepared on the basis of identified criteria. In order to accept an assurance engagement, the practitioner needs to be satisfied that the preconditions for an assurance engagement are present. Preconditions, in summary, include:</p> <ul style="list-style-type: none"> <li>- The roles and responsibilities of the appropriate parties are suitable</li> <li>- The underlying subject matter is appropriate</li> <li>- The criteria are suitable and available to users, including that they are: <ul style="list-style-type: none"> <li>- Relevant</li> <li>- Complete</li> <li>- Reliable.</li> <li>- Neutral</li> <li>- Understandable</li> </ul> </li> <li>- Evidence is available</li> <li>- The assurance practitioner's conclusion is to be contained in a written report</li> <li>- The engagement has a rational purpose</li> </ul> <p>For further information see: <a href="#">ASAE 3000 Assurance Engagements Other than Audits or Reviews of</a></p>

<b>Reform proposals [ASIC submission]</b>	<b>Pros [ASIC submission]</b>	<b>Cons [ASIC submission]</b>	<b>Applicability to Australia CPA Australia's views</b>
			<i>Historical Financial Information (Revised)</i>
Increase 'cooling-off' period for partner rotation to five years	<ul style="list-style-type: none"> <li>• The current two-year cooling-off period in the Act might allow a partner to continue to be a 'shadow' auditor, particularly given handover periods.</li> <li>• It would align the Act with the new requirements in the Code of Ethics.</li> </ul>	<ul style="list-style-type: none"> <li>• It may be more difficult to plan rotation in smaller audit firms.</li> </ul>	From 31 December 2023, the Code of Ethics issued by the APESB requires the cooling-off period for engagement partners for audits of public interest entities to increase to five years. Although, we acknowledge that this is a longer period than that required in the Corporations Act, CPA Australia members are required to comply with the Code of Ethics in addition to the Corporations Act.