

31 October 2011

The Manager
Corporate Reporting and Accountability Unit
Corporations and Capital Markets Division
The Treasury
Langton Crescent
PARKES ACT 2600

By email: auditquality@treasury.gov.au

Dear Sir/Madam,

Re: Corporations Legislation Amendment (Audit Enhancement) Bill 2011

The Australian Public Policy Committee (APPC) appreciates the opportunity to comment on the Exposure Draft of the Corporations Legislation Amendment (Audit Enhancement) Bill 2011 (the Draft Bill). The APPC includes BDO, CPA Australia, Deloitte, Ernst & Young, Grant Thornton, KPMG, PKF, PwC, The Institute of Chartered Accountants in Australia and the Institute of Public Accountants.

The APPC's objective is to promote positive public policy outcomes in respect of audit, accounting and related services in Australia that:

1. Enhance the reputation of the accounting profession by setting and adhering to high standards of ethical and professional conduct.
2. Preserve the viability of a high quality, independent, external financial audit profession through an ongoing focus on audit quality and fair and equitable apportionment of the financial risks associated with the audit function.
3. Add value to the accounting profession's clients and stakeholders.

The APPC welcomes the Draft Bill and supports the initiative taken by Treasury in undertaking the Strategic Review into Audit Quality that preceded it. We also appreciate the consultative approach adopted by Treasury in preparing the Draft Bill. We share Treasury's overall conclusion that Australia's audit regulation framework is robust and stable, in line with international best practice, and that no fundamental changes to the framework are required.

We offer the following comments for your consideration on the Draft Bill.

Auditor Rotation

We support the proposal to allow directors of a listed company or listed registered scheme to extend the rotation period beyond five years to up to two additional years, provided specific requirements are met. We concur that this additional flexibility is in the interest of audit clients.

However, we consider that the wording of one of the requirements may, in practice, work against flexibility being achieved. Specifically, we believe that the word "necessary" in proposed 324DAB (2)(d)(i) and 324DAB (3)(a)(i) could be a disincentive to time extensions being granted. It may be difficult for audit committees to satisfy themselves that an extension is "necessary to safeguard the quality of the audit" or to satisfy others of this fact if required.

We would recommend alternative words; to the effect that an extension of time be permissible if the audit committee is satisfied that the approval “is consistent with safeguarding the quality of the audit provided to the company or scheme”.

Annual Transparency Reports

We note that the information to be contained in the transparency reports is to be prescribed by regulation.

We would suggest that these requirements be aligned with the requirements of the European Union and be consistent with the matters outlined in the Explanatory Material to the Draft Bill.

We also note that the Draft Bill appears to require firms to prepare transparency reports on the basis of calendar years. We feel that this has the potential to add significantly to the costs of firms if their own financial periods are not calendar year end. We believe that there should be scope to allow firms to report on other than a calendar year basis.

Whilst not a major impost, we see no reason to require electronic copies of transparency reports to be lodged with ASIC, and worse, why failure to do so should be an offence. Transparency reports are intended for the benefit of the public and will be published. ASIC is free to access the report which must be published in line with proposed 332A(2).

Auditor Independence Functions

The APPC has previously indicated its support for streamlining the auditor independence work of ASIC and the Financial Reporting Council (FRC). Specifically, we supported elimination of duplication between ASIC and the FRC, and for ASIC to retain its policy oversight role for auditor independence.

We note that the Bill gives the FRC “Specific auditor quality functions”, broadly giving “strategic policy advice and reports to the Minister and professional accounting bodies”, including potentially on a range of specified matters. The FRC’s capacity to undertake this broader role in relation to audit quality will need to be monitored once the changes are effective.

Audit Deficiency Notifications and Reports

As previously discussed, the APPC considers that the adoption of a public disclosure reporting model based on the approach in Canada is appropriate. This would allow ASIC to issue a public audit deficiency report on an individual audit firm only after the audit firm had failed to take remedial action to address an audit defect identified by ASIC within a prescribed time frame.

However, in relation to proposed Division 5A of the Draft Bill we offer the following comments:

- Clause 50B(1) proposes that ASIC “may”, in writing, notify the Australian auditor of the identified audit deficiency. It is reasonable to expect that ASIC should be required to provide written notice of any perceived audit deficiency, both in the interests of improving audit quality and for reasons of procedural fairness. Accordingly, clause 50B(1) should be amended so that ASIC “must”, in writing, notify the Australian auditor of the identified audit deficiency.
- Consideration should be given to extending the time period the auditor has to respond to ASIC beyond 6 months (clause 50B(2)(b));
- Consideration should be given to setting a reasonable time limit on ASIC for it to publish an audit deficiency report. Under clause 50C(1) it may do so “At any time after the end of the 6 month period”. It is undesirable and potentially damaging to public confidence for matters to drag on or for deficiency reports to appear in the public domain years after the date of the relevant deficiency;

- Given the potential for differing viewpoints and interpretations between firms and ASIC, firms should be given a right of reply and ASIC be required to publish such response if it chooses to proceed to publish an audit deficiency report;
- Rights of appeal or similar dispute resolution proceedings should be established. Such processes should be concluded before ASIC may publish an audit deficiency report. There are serious reputational issues at stake for auditors that are the subject of audit deficiency reports and the power to publish such reports must be accompanied by due process.

Communications with Corporations, Registered Schemes and Disclosing Entities

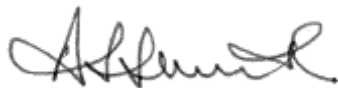
The APPC has previously indicated our view that ASIC currently has adequate powers of disclosure available to it to address any issues that could be foreseeable.

Nevertheless, accepting that there is a view that clarification of this power is needed, we consider that proposed Part 3 of the Bill should also include provision for ASIC to be required to provide advance notice to an auditor that it intends to communicate directly with a company or similar on the conduct of an audit or other matter specified in proposed clause 17(2)(D). The auditor should also be given an opportunity to respond to ASIC on the information to be provided to the audit committee or company within a reasonable time period. ASIC should also be required to consider such response before disclosing information to the audit committee or company and include the auditor's response to ASIC when disclosing the information to the audit committee or company, if so requested by the auditor.

Open communication of matters between auditors and ASIC as regulator is to be encouraged and communication could lead to resolution of issues without the need to communicate directly with a client.

Thank you for the opportunity to comment on the Draft Bill. We would be happy to elaborate on any of the above comments if you require.

Yours faithfully,



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