

Date 2 July 2012

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

**Corporations Amendment Regulation 2012 pursuant to
Corporations Legislation Amendment (Audit Enhancement) Act 2012**

CPA Australia, the Institute of Chartered Accountants in Australia and the Institute of Public Accountants (the Joint Accounting Bodies) are pleased to respond to the Treasury draft regulations in relation to the requirement for publication of an annual transparency report by firms conducting audits, introduced in the *Corporations Legislation Amendment (Audit Enhancement) Act 2012*. We note that the time available between publication of the exposure draft and the deadline for submissions did not permit us to consult as widely with our members as normally we would.

The Joint Accounting Bodies represent over 190,000 professional accountants. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

We are committed to supporting developments that enhance audit quality and are in general support of the intent of the draft regulations. Nevertheless we have some concerns regarding the practical application of some of the proposals and have outlined our comments in the attached appendix.

If you require further information on any of our views, please contact Amir Ghandar, CPA Australia by email amir.ghandar@cpaaustralia.com, Andrew Stringer, the Institute of Chartered Accountants by email andrew.stringer@charteredaccountants.com.au or Tom Ravlic, the Institute of Public Accountants by email tom.ravlic@publicaccountants.org.au.

Yours sincerely



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The Institute of
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Corporations Amendment Regulation 2012

Annual transparency reports

We support the concept of annual transparency reports by auditors. In our view such reports could contribute to boosting stakeholder understanding of auditors and the quality of audit work.

1. We noted in our joint submission dated 28 October 2011 that in implementing this measure, care needs to be taken since audit practices of a range of sizes could be captured by the proposed annual transparency reports. Smaller and medium sized practices have fewer resources to dedicate to the preparation of such reports and the regulatory burden could disproportionately affect these firms. In order to recognise this issue we suggested consideration of a tiered approach to disclosure based on the number and type of audits firms undertake. Further, in our earlier discussions with Treasury the matter of staged implementation of transparency reporting had been canvassed. We suggest that this be further considered.

Given the limited time available to respond to these draft regulations, further consultation with our members is required to determine and make recommendations on the detail of a tiered approach.

As currently drafted the legislation does not include a stepped or tiered approach to transparency reporting. We recognise the policy objectives of having information on the public record about firms that conduct audits of entities covered in the legislation. As we understand the proposed requirements, firms that are national partnerships would be required to prepare one annual transparency report; whereas smaller networks, in which individual firms in the network tend to be locally owned while being part of the network, could potentially be required to produce multiple transparency reports.

A possible way to address this additional burden could be to provide some relief for networks which are able to demonstrate common policies and procedures regarding both quality control and partner remuneration, being in place across the offices in the network. We suggest this could lead to one report being required for the network. An addendum containing other information required could be attached for each firm in the network captured by the legislation.

2. Some audit firms have established authorised audit companies through which some of their audits are conducted, while retaining some audits, for various reasons, in the existing partnership. Consequently there could potentially be some duplication of effort required. This situation could be addressed by requiring the annual transparency report to be prepared by the audit practice and its controlled entities.
3. While the foregoing point deals with an audit practice and its controlled entities, the legislation does not consider the range and complexity of practice structures in place. Our understanding of the legislation's intent is for relevant information about the professional practice as a whole to be included. The legislation is currently unclear on this, and it would be helpful to provide clarification. This should address matters regarding the measures (such as revenue and fees) to be included.

A further observation is regarding the inconsistency in the wording of draft Item 7A210, which uses "total revenue" in (a), and "fees received" in (b). In our view both references should be to revenue as calculated in accordance with the Accounting Standards issued by the Australian Accounting Standards Board.

4. Proposed Regulation 7A207 as drafted requires the transparency reporting auditor to provide a list of the names of the entities mentioned in Section 332A(1) of the Act. A number of groups exist that contain multiple entities, which could be captured by this requirement. Is the intention to require the listing of all such entities, or merely the group? We suggest this be clarified and only disclosure of the group be required where the firm is the auditor for the entire group.
5. Some of our members have pointed out that having the transparency reporting year end on 30 June adds to the reporting burden at a time when audit firms are at their busiest. Additionally, many firms have a year end reporting date that does not fall on 30 June. We suggest clarification and to provide firms with the ability to nominate an alternate transparency reporting year end, not more than six months after 30 June.