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The Manager
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Corporations and Capital Markets Division
The Treasury
Langton Crescent
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By email: auditquality@treasury.gov.au

29 June 2012

Dear Sir

Audit Enhancement Act 2012 – draft regulation for annual transparency reports

KPMG is pleased to provide its submission on the exposure draft regulations to implement the requirement for the publication of an annual transparency report by firms conducting audits, introduced in the *Corporations Legislation Amendment (Audit Enhancement) Act 2012* (Draft Regulations).

KPMG supports audit quality and transparency

KPMG has been a long standing supporter of transparency reporting that enhances stakeholder understanding of the audit and of the measures that firms take to enhance audit quality.

Our commitment to public transparency is illustrated by being the first network of member firms to publish an International Transparency Report (2005) and, in November 2010, we were the first Big Four firm in Australia to voluntarily publish a Transparency Report *Audit Quality in Focus*. Our 2011 Transparency Report *Unlocking audit quality* was published in February 2012.

We believe that audit firm governance has a significant influence on audit quality. Accordingly, we fully support public disclosures regarding policies and structures that comprise how the firm is organised as well as the systems, controls and procedures established to achieve and maintain audit quality. We believe that insight into our commitment to audit quality in turn promotes confidence in financial reporting and contributes to stable capital markets. We welcome the Draft Regulations as measures likely to further enhance the quality and transparency of auditing in Australia.

Comparability

KPMG is pleased that the Draft Regulations prescribe a form of transparency reporting very similar to Article 40 of EU Directive 2006/43/EC on statutory audits (Article 40). We encourage Treasury to ensure the final Regulations remain directly comparable to Article 40, to minimise the cost burden on networks needing to produce these reports in multiple jurisdictions. Convergence to a globally agreed framework for public transparency disclosures will allow both regulators and regulated entities to focus on the substance of such regulatory and reporting requirements rather than managing multiple reporting regimes.

In our view, there are four aspects of the Draft Regulations which appear slightly different to Article 40: 7A206, 7A208(b), 7A209 and 7A210. We comment further on these below.

7A208(b) and 7A209

KPMG supports these parts of the Draft Regulations, as likely to provide valuable additional information for the reader that could help inform an assessment of the firm’s audit quality.

We have included statistics relating to training attendance, average training days, number of training sessions and the Chartered Accountants program in our Transparency Reports, along with information about the results of our annual independence compliance reviews. KPMG remains committed to providing this level of disclosure to help users of audit services cut through complexity and make a more informed assessment about the quality of their audit service.

7A206 Reviewing bodies

There is the potential for the interpretation of “each body that is authorised to review the transparency reporting auditor” to extend beyond the local regulator ASIC and local professional accounting bodies to other bodies such as the PCAOB, the Australian National Audit Office or other Auditors-General.

KPMG notes that the Explanatory Memo to the Act (page 31) envisages the disclosures to include:

- “details of when the last reviews of the auditor took place, showing separately:
 - audit inspections by ASIC; and
 - quality assurance reviews by each of the professional accounting bodies”.

Although the wording in the Draft Regulations is broad, it appears the intention of the Act was not to extend the disclosure to non-professional accounting bodies nor bodies outside of Australia. We suggest further clarification of this point would be useful to ensure consistent interpretation.

7A210 Financial information

KPMG notes the changes to the financial information requirements of the Draft Regulations which address our previous concern. However, we would like to raise two further matters for consideration.

- 1 “Total revenue” and “Fees received during the year” are not interchangeable terms. Firms already publicly disclose total revenue, and we suggest a breakdown of this number rather than an analysis of fees received will provide the more relevant and comparable information.
- 2 Article 40 includes an overarching principle to guide financial information disclosures, being to show “the importance of the audit firm”. We suggest amending the Draft Regulations to embed this principle. Requiring a two-way split between fees for audits and fees for all other services will not be sufficiently granular to allow the reader to make a fully informed assessment of the importance of the audit practice in the context of the whole firm. For example, revenue from assurance services such as assurance opinions over regulatory returns / filings, viewed as a companion service to a financial statement audit, would fall into “other services” under 7A210(b)(ii).

Having disclosed financial information in our last two Transparency Reports, KPMG formed the view that the most useful information for readers is Total Revenue (as already quoted publicly by the firm) split to show the percentage related to:

- Audit services for audit clients
- Non audit services for audit clients
- Non audit services for non audit clients

We suggest further refinement to the 7A210 requirements to encourage disclosure of the importance of the audit practice to the firm’s overall business and results.



*The Treasury
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We would be pleased to discuss any of these points further; if you have questions please contact me on 02 9335 7630.

Yours faithfully

A handwritten signature in black ink, appearing to read 'M McGrath', written in a cursive style.

Martin McGrath
Partner-in-Charge, Department of Professional
Practice