



PITCHER PARTNERS

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Pitcher Partners, including Johnston Rorke,
is an association of independent firms
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29 June 2012

The Manager
Corporate Reporting and Accountability Unit
Corporations and Capital Markets Division
The Treasury

By email: auditquality@treasury.gov.au

Dear Sir

ANNUAL TRANSPARENCY REPORT FOR AUDITORS - REGULATIONS

We appreciate the opportunity to provide comments on the draft regulations in respect of the annual transparency report for auditors. Pitcher Partners is an association of independent firms operating from all major cities in Australia. As our association comprises independent firms, the transparency reporting criteria will be applied to each firm separately, together with a description of the legal and structural arrangements of the network.

We acknowledge that Treasury has made certain changes to the initial proposals and we concur with requirements in the draft regulations to provide financial information for a financial year. Further, the analysis of financial information to be provided is now better aligned with internal reporting systems.

However, we consider that Treasury has failed to take account of differences in the nature and size of the Australian listed market and overseas markets when determining the scope of financial information to be provided. There is a clear distinction between the size and nature of businesses in the ASX/S&P 300, in contrast to the remaining smaller listed entities, which are unlikely to be large enough to be listed in some jurisdictions. We consider that audit fees derived from the audits of the top 300 listed entities should be the driver of summary financial information disclosures and that transparency reporting by auditors of small listed entities will be overly onerous given the level of fee income generated. We recommend that financial



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transparency should only be mandated where an audit firm is earning a large portion of their revenue from listed audit fee income.

We consider that there is a real risk that many firms, whose major source of revenue is *not* from listed audits, may exit the listed audit market and thereby **increase** the level of **audit concentration**. The Australian capital market is less than 5% of global markets and includes many entities that would be part of a 'second board' in other jurisdictions. Consequently, applying regulatory standards, equivalent to those in dominant world economies, to the young Australian market will not always be beneficial.

As previously indicated in earlier submissions to Treasury, we recognise that while approximately half of Australia's GDP may be contributed by Australia's 500 largest companies, half of the wealth generated in Australia is contributed by other market segments. Businesses will transition from one market segment to another and therefore Australia needs auditors that understand each stage of business development. Commensurate with our economic development, Australia has many 'general practice' firms that provide audit services, who understand the governance and risks in growing businesses.

Our audit clients come from a wide range of industries and include small to medium enterprises, government entities, large private businesses, publicly listed companies and family groups. Our audit practices provide audit and assurance services to a wide range of different size entities, with differing governance structures and user needs for financial information.

There is a fierce competitive market for audit with significant fee discounts being offered by some firms. Overly onerous regulation and transparency for auditors of smaller listed entities will encourage more activity in the non-regulated market segments. More particularly non-Big 4 auditors are likely to exit from listed entity audits and we can expect to see an increase in audit concentration.

Audit quality plays an essential role in maintaining an efficient market environment. We consider that Treasury should take a holistic view of the economy and should support a broad and diverse audit profession and therefore not require onerous public reporting where listed audit fees are not significant to a firm's total income.

Please do not hesitate to contact me if there are any matters arising that you would like to discuss further.

Yours faithfully
PITCHER PARTNERS



S D AZOOR HUGHES
Partner