

Question: General Purpose Financial Statements

ATO Second Commissioner, Jeremy Hirschhorn, recently gave a speech on large market tax advisers and referred to the Big-4 as 'systemically important firms'

<https://www.ato.gov.au/Mediacentre/Speeches/Other/Reflections-on-being-a-large-market-tax-adviser/>.

1. Does EY agree that it is a systemically important firm?

The Statement of Accounting Concepts 1 (SAC 1): Definition of the Reporting Entity forms part of the accounting standards.

2. Does EY prepare its own accounts—undertake internal accounting—in accord with SAC 1?

SAC 1 establishes the concept of a reporting entity, and requires reporting entities to issue general purpose financial statements to provide for the information needs of dependent users.

Entities are defined as being:

any legal, administrative, or fiduciary arrangement, organisational structure or other party having the capacity to deploy scarce resources in order to achieve objectives.

The Concept of the Reporting Entity is defined as:

all entities (including economic entities) in respect of which it is reasonable to expect the existence of users dependent on general purpose financial reports for information...

3. Does EY meet the definition of a reporting entity?
4. Does EY issue general purpose financial statements?

Answer:

1. Audit is systemically important to the functioning of the financial markets, and therefore we take our statutory duty as independent auditors of company financial statements seriously. This does not translate to EY being systemically important, nor a systemic risk in the way that we have been characterised publicly. We operate in a competitive market, where there are many other small and larger players who perform statutory audit services, that we compete with for business every day.
2. EY as a partnership is not subject to any statutory requirement to prepare and have audited, its financial statements. It has financial reporting obligations to its partners as set out in its constituent partnership agreement. EY complies with its obligations under the partnership agreement in respect of its financial reporting obligations to its partners. It does not produce any other financial statements.
SAC1 is not relevant to the obligations the Firm has to its partners under the partnership agreement as the agreement sets out the financial reporting requirements that must be complied with.
3. Please refer above.
4. Please refer above.