



Australian Government

Auditing and Assurance Standards Board

5 October 2023

Committee Secretary
Parliamentary Joint Committee on Corporations and Financial Services
Parliament House
Canberra ACT 2600

By email: corporations.joint@aph.gov.au

Dear Chair and Committee members

Submission to the Parliamentary Joint Committee on Corporations and Financial Services (PJC) Inquiry into *Ethics and Professional Accountability: Structural Challenges in the Audit, Assurance and Consultancy Industry* (the Inquiry)

Thank you for the opportunity to make a submission to the Inquiry.

Introduction

The quality of independent audit and assurance is key to the quality of information in financial reports and future periodic climate and sustainability reports. This supports confident and informed markets and investors, and confidence in the Australian economy.

While audit and assurance practitioners have the primary responsibility for quality audits and assurance, the Australian Auditing and Assurance Standards Board (AUASB) sets auditing and assurance standards that play an important role in promoting and supporting audit and assurance quality.

Auditors provide a key line of defence in the quality of financial reports. An auditor must conduct their audit in accordance with the auditing standards and obtain reasonable assurance whether the financial report as a whole is free of material misstatement. Among other matters, the auditing standards require auditors to ensure that material deficiencies detected are addressed or communicated through the auditor's report on the financial report. Where an auditor does not conduct a quality audit in accordance with the standards or report as required by the standards, there may be material misstatements that cannot be identified by reading the financial report itself or from other public information.

It is also important that audit firms comply with the AUASB's quality management standards. Firms must identify and address quality objectives for audit and assurance in areas such as the firm's risk assessment process, governance and leadership, resources and monitoring of audits for compliance with auditing standards.

The AUASB has sought to understand from stakeholders such as regulators, auditors and accounting bodies where the auditing, assurance and quality management standards may need to be improved or enhanced.

The *Corporations Act 2001* (the Corporations Act) requires auditors to comply with auditing standards in the conduct of an audit. The Australian Securities and Investments Commission (ASIC) regulates compliance with auditing standards under the Corporations Act. The nature and extent of any surveillance and enforcement of compliance with the standards is not specified by the *Australian Securities and Investments Commission Act 2001* (ASIC Act) or the Corporations Act and is a matter for ASIC to determine.



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Overview

Attachment 1 to this submission provides further information on the AUASB and Australia's standard setting arrangements. Specifically, Attachment 1 covers:

1. The structure of Australia's standard setting for financial reporting, audit and assurance, and professional accountants;
2. The adoption of international standards;
3. The functions and processes of the AUASB setting audit and assurance standards;
4. Work plan priorities of the AUASB;
5. Response to relevant recommendations of PJC Inquiry into the Regulation of Auditing in Australia; and
6. Enforceability of standards.

Please do not hesitate to contact me by email at _____ or on mob:
should you wish to discuss any aspect of this submission.

Yours sincerely

Doug Niven
Chair
Auditing and Assurance Standards Board

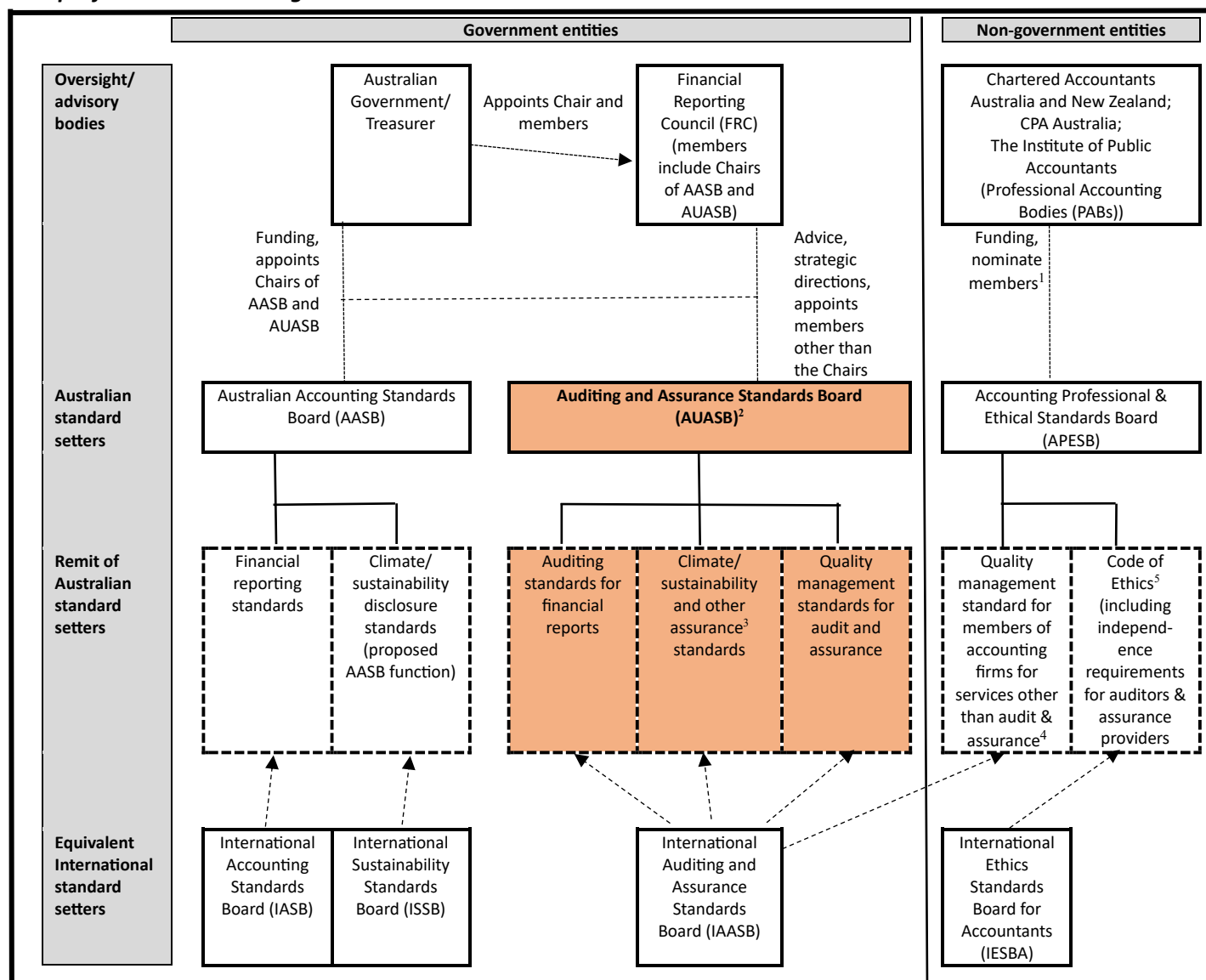


ATTACHMENT 1: FURTHER INFORMATION ON THE AUASB AND AUSTRALIA'S STANDARD SETTING ARRANGEMENTS

1. The structure of standard setting for financial reporting, audit and assurance, and professional accountants

Figure 1 below shows the overall standard setting arrangements for financial reporting, audit and assurance, as well as for members of professional accounting bodies.

Figure 1: Australia's standard setters for financial reporting, audit and assurance, and members of professional accounting bodies



¹ The Chair and members of the APESB are appointed by the APESB.

² The AUASB comprises the Chair of the AUASB and the members of the AUASB. The AUASB sets auditing and assurance standards. The Office also includes the staff supporting the AUASB and is an independent, non-corporate entity that does not have a separate legal identity from the Commonwealth. Except in Figure 2 or as otherwise indicated, this submission uses 'AUASB' to refer to both the AUASB and the Office of the AUASB.

³ The AUASB defines an 'assurance engagement' as 'an engagement in which an assurance practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the measurement or evaluation of an underlying subject matter against criteria' (see paragraph 10 of the AUASB's [Framework for Assurance Engagements](#)).

⁴ While the APESB standard has similar content to an IAASB standard, the IAASB's standard covers firm audit and assurance services.

⁵ [APES 110 Code of Ethics for Professional Accountants \(including Independence Standards\)](#).



2. The adoption of international standards

The AASB, AUASB and APESB standards are based on, and consistent with standards set by the equivalent international standard setting body that is shown in the bottom row in Figure 1. The AASB, AUASB and APESB also make additional Australian specific standards.

Using the international standards as a baseline supports confidence in the Australian economy (including capital markets). The AUASB works to improve the international baseline standards by:

- (a) Providing input to IAASB work plans on areas for improvements or enhancements to standards, and their relative priority;
- (b) Making written submissions on proposed standards;
- (c) Discussing issues and matters with the IAASB Chair, board members and staff, and also with other national standard setters; and
- (d) Providing AUASB views to the IAASB member for Australia in advance of IAASB meetings and meetings of relevant IAASB project task forces.

The AUASB may set additional standards and requirements to those in the international standards:

- (a) To enhance audit and assurance quality in the public interest; and
- (b) Having regard to domestic legislation and conditions.

3. The functions and processes of the AUASB in setting auditing and assurance standards

The functions of the AUASB, AASB and FRC as outlined in the ASIC Act are shown in the table in the Attachment 2 to this submission.

The auditing standards made by the AUASB are given legal effect under the Corporations Act. The assurance standards formulated by the AUASB do not have legal effect under the Corporations Act itself but may be applied or adopted by some other authority.

Principles underpinning standard setting include focussing on the public interest, integrity, transparency and understanding the views of stakeholders. Timeliness of standard setting is important and needs to be appropriately balanced with proper due process and producing quality standards.

The AUASB has twelve board members. The Chair is appointed by the Treasurer and the other members are appointed by the Financial Reporting Council (FRC).

The Chair of the AUASB is a former securities regulator and the Deputy Chair is a Territory Auditor-General. Six of the twelve members of the AUASB are partners of one of the largest four audit firms in Australia, including two sustainability experts. Other Board members are an academic, the CFO of a listed investment company, a partner of a smaller audit firm who is based in Perth, and the Chair of the New Zealand Auditing and Assurance Standards Board. Biographical information on each Board member can be found at [Board Members \(auasb.gov.au\)](https://auasb.gov.au/board-members).

Declarations of interest for all board members are published with the meeting papers for each AUASB meeting.

All members are appointed in their individual capacity. The AUASB (and therefore each of its members) has a function under the ASIC Act to advance and promote the objects in s224 of that Act. Among other matters, those objects include developing standards for reliable audit reports,



facilitating the Australian economy, and maintaining investor confidence in the Australian economy including its capital markets.

All sessions of Board meetings concerning the development and finalisation of standards are open to the public. All related Board papers are published on the AUASB website, together with the minutes of each meeting.

While standards are consistent with IAASB standards, the AUASB also follows its own published due process in the development of standards⁶, which includes public consultation. Auditing standards made under the Corporations Act are disallowable instruments.

The AUASB is supported by dedicated technical staff.

ASIC regulates compliance with the auditing standards in the conduct of an audit.

4. Work plan priorities of the AUASB

Climate and sustainability assurance

The second Treasury consultation paper on climate reporting⁷ and submissions thereon reflect demands for assurance over periodic climate reporting in annual reports of defined groups of entities to provide confidence in the reliability of that information. Directors and investors may seek voluntary assurance on climate information before any such assurance were to become mandatory.

Key work plan priorities for the AUASB over the next 12 months are likely to include:

(a) International baseline standard

Developing a sustainability assurance standard based on a standard under development by the IAASB. This includes public consultation by way of exposing a proposed standard for comment, roundtables and other outreach activities, as well as providing input to the IAASB (see. The AUASB has already issued the IAASB's exposure draft for consultation in Australia⁸. The IAASB plans to release a final standard in September 2024 and we envisage issuing an equivalent standard shortly thereafter.

(b) Standard specific to Australian reporting requirements

Given that the IAASB's proposed standard does not address assurance under specific reporting frameworks, developing a local standard on assurance under the climate reporting framework adopted by the AASB in Australia. This includes assurance on disclosures about matters such as:

- (i) Governance;
- (ii) Strategy;
- (iii) Metrics;
- (iv) Scenario analysis;
- (v) Transition plans; and
- (vi) The form and content of the report by assurance providers.

⁶ [Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications](#)

⁷ [Climate-related financial disclosure: Consultation paper: June 2023](#)

⁸ [AUASB Consultation Paper Exposure of the IAASB's Proposed ISSA 5000 General Requirements for Sustainability Assurance Engagements: and Proposing Conforming and Consequential Amendments to Other IAASB Standards](#)



(c) *Additional Australian guidance*

Developing enhanced local guidance on:

- (i) Applying materiality criteria and evaluating errors;
- (ii) The use of experts by assurance providers;
- (iii) Implications for group audits; and
- (iv) The meaning of limited vs reasonable assurance.

The AUASB's consultation paper on the IAASB's exposure draft (see priority (a) above) includes consultation questions about additional standards and guidance that may be given locally (see priorities (b) and (c) above).

The intention is to publish a draft of the proposed Australian specific standard by 30 June 2024.

The three work plan priorities in (a) to (c) above are interrelated and will also be a factor in any determination as to what levels of assurance should be applied to different climate information during the transition over time to the final ongoing levels of assurance on climate information for specific groups of entities.

In developing new standards and guidance, the AUASB will need to balance timeliness with maintaining quality and following appropriate due process.

Auditing standards

The AUASB will continue work on the development of important revised auditing standards that are the subject of IAASB projects in areas such as going concern, fraud and audit evidence.

We intend to promote important areas for improvements to international standards and guidance. These areas include audit sampling, the use of substantive analytical procedures and use of experts.

5. Response to relevant recommendations of PJC Inquiry into the Regulation of Auditing in Australia

The interim and final reports of the PJC Inquiry into the Regulation of Auditing in Australia issued in February and November 2020 contained ten recommendations. The two recommendations that are potentially relevant to the AUASB are outlined in Table 1 below with AUASB actions to date.

Table 1: PJC Audit Inquiry recommendations potentially relevant to the AUASB

PJC recommendation	AUASB actions to date
<i>Recommendation 6:</i> The committee recommends that the Financial Reporting Council, by the end of the 2020–21 financial year, oversee the revision and implementation of Australian standards to require audited entities to disclose auditor tenure in annual financial reports. Such disclosure should include both the length of tenure of the entity's external auditor, and of the lead audit partner.	<p>The AUASB does not express a view as to whether audit tenure should be disclosed. If disclosure of audit tenure were to be required, AUASB members suggest that it would be better for that information to appear in the directors' report rather than the auditor's report. While audit tenure is required to be disclosed in the auditor's report in some other jurisdictions, audit tenure is a governance matter for the directors and concerns the perceived or actual independence of the auditor. The directors' report for a listed entity details fees paid to the auditor for non-audit services and includes the auditor's independence declaration. A disclosure in the auditor's report would be isolated from this information.</p> <p>The Australian Institute of Company Directors and AUASB publication Periodic Comprehensive Review of the External</p>



PJC recommendation	AUASB actions to date
	Auditor – Guide for Audit Committees included guidance on disclosing audit tenure. However, such disclosure was not the focus of the publication and the publication could not mandate disclosure.
<p><i>Recommendation 8:</i> The committee recommends that the Financial Reporting Council oversee a formal review, to report by the end of the 2020–21 financial year, of the sufficiency and effectiveness of reporting requirements under the Australian standards in relation to:</p> <ul style="list-style-type: none"> the prevention and detection of fraud; and management's assessment of going concern. 	<p>While recommendation 8 focuses on financial report disclosure rather than audit, the IAASB is developing revised auditing standards on fraud and going concern. The AUASB has provided input to the IAASB during the development of these revised standards, which are planned for release by the IAASB in 2024 or 2025.</p> <p>The IAASB is proposing to require enhanced disclosure in the audit report about the work of the auditor in detecting fraud that could materially affect the financial report.</p> <p>The IAASB is also proposing to require all audit reports of public interest entities to include an opinion on going concern. At present, going concern is only mentioned where there is an issue. Disclosure may encourage auditors to enhance their work on going concern.</p>

6. Enforceability of standards

AUASB quality management standards

The AUASB's firm quality management standards on audit and assurance (AUASB QMSs) cannot be enforced by ASIC under the Corporations Act or by another regulator. The current AUASB QMSs are consistent with standards issued by the IAASB and are:

- [ASQM 1 Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements](#) (ASQM 1);
- [ASQM 2 Engagement Quality Reviews](#); and
- [ASA 220 Quality Management for an Audit of a Financial Report and Other Historical Financial Information](#).

Auditing standards can be made as legislative instruments for the purposes of s336 of the Corporations Act. Such auditing standards are enforceable against an individual auditor, the lead auditor of an audit firm or an authorised audit company but only in the conduct of an individual audit (see s307B of the Corporations Act).

ASIC could not seek penalties for non-compliance with the AUASB QMSs or apply for the deregistration or suspension of a registered company auditor. The reasons are as follows:

- The AUASB QMSs do not generally apply in the conduct of individual audits;
- The AUASB QMSs are written to apply to an audit firm but the requirement under the Corporations Act to ensure compliance with an auditing standard in the conduct of an audit falls on the lead auditor; and
- While labelled and made as if they are auditing standards, the AUASB QMSs are not auditing standards. The IAASB standards on which the AUASB QMSs are based are not regarded as auditing standards but rather as Quality Management Standards.

The AUASB QMSs apply to members of the Professional Accounting Bodies (PABs) through requirements of those PABs. While a PAB could consider disciplinary action against a member of an audit firm for non-compliance by the firm:



- (i) The PAB cannot take action against the firm; and
- (ii) Not all auditors are members of one of the PABs.

The AUASB QMSs apply to audit, assurance and related services provided by audit firms. They would also be indirectly relevant to other areas of an audit firm (e.g. tax) to the extent that experts from these areas form part of the audit engagement team. The AUASB QMSs require a firm to identify and address quality objectives in areas such as:

- (a) A firm's risk assessment process;
- (b) Governance and leadership;
- (c) Adequacy of resources for audits; and
- (d) Monitoring of audits for compliance with the auditing standards and remediation of findings.

While the AUASB QMSs are principles-based rather than providing detailed rules and action cannot be taken against staff or all partners of a firm for non-compliance, the AUASB QMSs are important to supporting audit and assurance quality.

Consideration could be given to whether the AUASB QMSs should be enforceable in full under the Corporations Act for firms that audit financial reports and/or provide assurance over climate/sustainability information in annual reports. The AUASB notes that Treasury will be reviewing aspects of the regulatory framework for firms (see media release of 4 August 2023 from the Treasurer and other Ministers [*Government taking decisive action in response to PwC tax leaks scandal*](#)).

Assurance and quality management could also be relevant for climate/sustainability information reported separately from annual reports and any future requirements of the Corporations Act. Information could be provided for other purposes and users, under other legislation or regimes, and by assurance providers subject to other established processes.

APESB standards

Some have suggested that APESB standards should be made enforceable by ASIC or another government regulator under legislation, being:

- (a) The APESB quality management standard (currently [*APES 320 Quality Management for Firms that provide Non-Assurance Services*](#) (APES 320)), which is similar to ASQM 1 but applies to non-assurance services of firms that have partners who are members of one of the PABs and hold a public practising certificate;
- (b) The Code of Ethics; and
- (c) Other APESB standards on non-assurance services.

The AUASB does not express a view on whether these standards should be enforceable under legislation.

The PABs require their members to comply with the APESB standards. Members who do not comply may be subject to disciplinary action by their PAB.

Paragraph 6 of Auditing Standard ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* requires an auditor, assurance practitioner, engagement quality reviewer and firm to comply with the Code of Ethics when performing audits, reviews and other assurance engagements. However, auditing standards are only enforceable under the Corporations Act in the conduct of an individual audit and for the lead



auditor in the case of an audit firm (s307B). Most of the Code of Ethics does not apply in the conduct of individual audits.

Some factors that may be considered if the APESB standards were to be made enforceable under legislation include:

- (a) Whether legally enforceable standards should be made by a government body that is funded by mandatory levies and whose chair and members are appointed by government or a government body;
- (b) Whether the Code of Ethics should be enforceable under the Corporations Act in connection with entities whose financial reports are subject to audit under the Corporations Act;
- (c) Whether the Code of Ethics should be extended to cover audit, assurance and other services provided by individuals and entities who are not members of one of the PABs, as well as individuals who are members of one of the PABs;
- (d) Whether the Code of Ethics should only apply to the extent that it is not inconsistent with the existing general and specific auditor independence requirements in Chapter 2M of the Corporations Act;
- (e) Whether there are any aspects of the Code of Ethics that should be strengthened; and
- (f) Whether any future new provisions of the Code of Ethics covering climate/sustainability reporting assurance providers should be made enforceable. This may include considering whether the Code of Ethics should be applied to any non-accountant practitioners who are subject to other ethical and independence standards for another profession.

Current status of the standards

Attachment 3 summarises the current status and enforceability of existing and proposed AASB, AUASB and APESB standards.



ATTACHMENT 2: FUNCTIONS OF THE AUASB, AASB AND FRC

Table 2: Functions of the AUASB, AASB and FRC under the ASIC Act

AUASB (s227B(1))	AASB (s227(1))	FRC (s225)
(a) To make auditing standards under section 336 of the <i>Corporations Act 2001</i> (Corporations Act) for the purposes of the corporations legislation.	(a) To develop a conceptual framework, not having the force of an accounting standard, for the purpose of evaluating proposed accounting standards and international standards.	(1)(a) To provide broad oversight of the processes for setting accounting standards in Australia.
(b) To formulate auditing and assurance standards for other purposes.	(b) To make accounting standards under section 334 of the Corporations Act for the purposes of the corporations legislation (other than the excluded provisions).	(1)(b) To provide broad oversight of the processes for setting auditing standards in Australia.
(c) To formulate guidance on auditing and assurance matters.	(c) To formulate accounting standards for other purposes.	(1)(d) To give the Minister reports and advice about the matters referred to in paragraphs (1)(a) and (b) above.
(d) To participate in and contribute to the development of a single set of auditing standards for world-wide use.	(d) To participate in and contribute to the development of a single set of accounting standards for world-wide use.	(1)(f) To establish appropriate consultative mechanisms.
(e) To advance and promote the main objects of Part 12 of the ASIC Act ⁹ .	(e) To advance and promote the main objects of Part 12 of the ASIC Act.	(1)(g) To advance and promote the main objects of Part 12 of the ASIC Act.
		(1)(h) Any other functions that the Minister confers on the FRC by written notice to the FRC Chair.
		(2)/(2A) <i>Specific accounting/auditing standards functions</i> (a) Appointing the members of the AASB/AUASB (other than the Chairs); (b) Giving the AASB/AUASB advice or feedback on their priorities, business plans and procedures; (ba) Giving the Office of the AASB/AUASB advice or feedback on budgets, staffing arrangements (including level, structure and composition of staffing); (c) Determining the AASB's/AUASB's broad strategic direction ¹⁰ ;

⁹ The main objects of Part 12 of the ASIC Act are outlined in s224 and are:

- (a) to facilitate the development of accounting standards that require the provision of financial information that:
 - (i) allows users to make and evaluate decisions about allocating scarce resources; and
 - (ii) assists directors to discharge their obligations in relation to financial reporting; and
 - (iii) is relevant to assessing performance, financial position, financing and investment; and
 - (iv) is relevant and reliable; and
 - (v) facilitates comparability; and
 - (vi) is readily understandable; and
- (aa) to facilitate the development of auditing and assurance standards and related guidance materials that:
 - (i) provide Australian auditors with relevant and comprehensive guidance in forming an opinion about, and reporting on, whether financial reports comply with the requirements of the Corporations Act; and
 - (ii) require the preparation of auditors' reports that are reliable and readily understandable by the users of the financial reports to which they relate; and
- (b) to facilitate the Australian economy by:
 - (i) reducing the cost of capital; and
 - (ii) enabling Australian entities to compete effectively overseas; and
 - (iii) having accounting and auditing standards that are clearly stated and easy to understand; and
- (c) to maintain investor confidence in the Australian economy (including its capital markets).

¹⁰ Similar to the equivalent international bodies, the FRC cannot interfere in the content of accounting, auditing or assurance standards made by the AASB or AUASB.



AUASB (s227B(1))	AASB (s227(1))	FRC (s225)
		<p>(e) Monitoring the development of international accounting/auditing standards and the standards applying in major international financial centres;</p> <p>(f) Furthering the development of a single set of accounting/auditing standards for world-wide use with appropriate regard to international developments;</p> <p>(g) Promoting the continued adoption of international best practice standards in the Australian standard setting processes if that would be in the best interests of both the private and public sectors; and</p> <p>(h) Monitoring:</p> <ul style="list-style-type: none"> (i) the operation of the standards to assess their continued relevance and effectiveness in achieving their objectives for the private and public sectors; and (ii) the effectiveness of the AASB's/ AUASB's consultative arrangements.
		<p><i>Specific auditor quality functions</i></p> <p>(2B) Giving strategic policy advice and reports, to the Minister and professional accounting bodies, in relation to the quality of audits conducted by Australian auditors.</p> <p>(2C) Advice and reports may include specified matters such as systems and processes used by Australian auditors to comply with provisions of the Corporations Act on the conduct of audit, the auditing standards and the Code of Ethics.</p>



ATTACHMENT 3: CURRENT ENFORCEABILITY OF AASB, AUASB AND APESB STANDARDS

For a standard to be an enforceable standard for the purposes of audits and assurance in financial reports and any accompanying climate/sustainability information under the Corporations Act:

- The standard setting body must have the remit to develop the standard under the ASIC Act;
- The standard setting body must have the ability to make a standard for the purposes of the Corporations Act; and
- The Corporations Act must include a provision that allows ASIC to apply to a court for penalties to be imposed on individuals, audit firms and authorised audit companies that do not comply with the standard.

Table 3 outlines the current status and enforceability of AASB, AUASB and APESB standards.

Table 3: Current status and enforceability of standards

		Accounting standards	Sustain-ability disclosure standards (proposed)	Auditing standards	Sustain-ability assurance standards (proposed)	Other assurance standards	Quality manage-ment standards for audit and assurance	Quality manage-ment standards for other services	Code of Ethics
Standard setter		AASB	AASB (proposed)	AUASB	AUASB	AUASB	AUASB	APESB	APESB
Corporations Act compliance requirements	Does the standard setter have the remit to develop the standards under the ASIC Act (s227B(1) or s227(1))?	Yes	No (Proposed – legislation before Parliament ¹¹)	Yes	Yes	Yes	Yes	No	No
	Does the standard setter have the ability to make the standards under the Corporations Act (s336 or s334)?	Yes	No (Proposed in second Treasury consultation paper on climate reporting)	Yes	No (Proposed in second Treasury consultation paper on climate reporting)	No	No	No	No
	Who is required to comply with the standards under the Corporations Act (s307B or s296/ s304)?	The entity preparing a financial report. Directors must take reasonable steps to ensure compliance	None (Proposed – Entities preparing the reports)	An individual, the lead auditor in an audit firm or authorised audit company	None (Assurance providers - proposed in second Treasury consultation paper on climate reporting)	No-one	No-one	No	No
Apply to members of PABs through those bodies		Yes	No	Yes	Yes	Yes	Yes	Yes	Yes

¹¹ [Treasury Laws Amendment \(2023 Measures No. 1\) Bill 2023](#)