



31 August 2023

Committee Secretary
Parliamentary Joint Committee on Corporations and Financial Services
Parliament House
Canberra ACT 2600
Email: corporations.joint@aph.gov.au

Dear Committee

Thank you for your invitation to make a submission to your current inquiry into *Ethics and Professional Accountability: Structural Challenges in the Audit, Assurance and Consultancy Industry*.

Confidence in the quality of auditing and the accounting profession is paramount to the effectiveness of the financial reporting framework in Australia and fostering confidence in the integrity of our markets.

The Financial Reporting Council (FRC) is responsible for overseeing the effectiveness of the financial reporting framework in Australia. Its key functions include the oversight of the accounting and auditing standards setting processes for the public and private sectors, providing strategic advice in relation to the quality of audits conducted by Australian auditors, and advising the Minister on these and related matters to the extent that they affect the financial reporting framework in Australia.

Relevant to this inquiry, the FRC is currently reviewing Australia's audit quality processes in Australia including ASIC's audit surveillance, the Professional Accounting Bodies' (PABs) Quality Review Program, and audit firms' (including the Big 4) compliance with Professional standards and how identified breaches are managed.

The FRC review focuses on how audit quality and compliance with auditing standards and auditor independence provisions of the ethical standards are monitored and supported, including processes to identify breaches and escalation to disciplinary action. The scope of this review includes systems and processes in place at the six largest audit firms and a sample of smaller firms, professional accounting bodies (PAB), and ASIC. For completeness the FRC also considered the role of the standard setters, Companies Auditors Disciplinary Board (CADB) and Audit Committees in supporting audit quality.

The review builds on a previous review and report released by the FRC in 2019 which examined the disciplinary processes for registered company auditors. The FRC has been monitoring developments in this space and is aware that there have been changes to disciplinary processes since the completion of the 2019 Review. However, there is a lack of transparency and granular data on auditor disciplinary tools, actions and outcomes from professional accounting bodies, audit firms and regulators.



Whilst we have not yet completed our review and it is focused primarily on auditors, we have some preliminary observations which are relevant to the wider accounting profession and your inquiry's terms of reference. For example, registered company auditors are subject to oversight by an independent regulator (ASIC), however there are other auditors, accountants and consultants who are not subject to any oversight by an independent government body. We have also observed that auditors who are members of one of the three largest professional accounting bodies must comply with the Quality Management Standards issued by the Auditing and Assurance Standards Board which are designed to enhance audit quality and support compliance with professional and ethical standards, however these standards do not have the force of law and we are exploring the level of statutory monitoring of the audit firm's compliance with these requirements.

Similarly, members of professional bodies must follow standards issued by the Accounting Professional and Ethical Standards Board (APESB); however, these standards generally have no legal status and there is insufficient statutory monitoring of compliance with those standards.

There are various programs of review of audits, auditors, financial reports and/or accountants conducted by ASIC and the professional accounting bodies – each seeks to achieve a different purpose, and each is limited in its scope. ASIC has decreased the number of audit engagements they have inspected in recent years. The professional accounting bodies are not independent of the profession and their quality reviews serve a different purpose than ASIC's oversight. In addition, unlike similarly large, complex businesses, larger audit/accounting firms do not usually have substantially independent governance arrangements in place.

It is anticipated that the current FRC review will be completed by the end of October 2023 and the FRC will publicly release a report with findings and recommendations for Government and other relevant entities. Due to the intersection with the inquiry's terms of reference as they relate to audit, I trust that the FRC's report and recommendations will provide useful insights for the Committee's consideration.

On behalf of the FRC, we look forward to engaging with the committee to further contribute to the inquiry and would welcome the opportunity to provide any further information at a hearing if required.

Yours sincerely,

Andrew Mills
Chair
Financial Reporting Council