



ASIC
Australian Securities &
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**Australian Securities
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22 September 2021

Andrew Wallace MP
Committee Chair
Parliamentary Joint Committee
on Corporations and Financial Services

JOSEPH LONGO
CHAIR

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

Response to the Statutory Oversight of the Australian Securities and Investments Commission, the Takeovers Panel and the Corporations Legislation: Report No. 1 (13 February 2019)

Dear Mr Wallace

I refer to your letter dated 6 September 2021 seeking ASIC's responses to the recommendations outlined in the 13 February 2019 report by the Parliamentary Joint Committee on Corporations and Financial Services on *Statutory Oversight of the Australian Securities and Investments Commission, the Takeovers Panel and the Corporations Legislation: Report No. 1 of the 45th Parliament* (the PJC Report).

The PJC Report contained two recommendations:

Recommendation 1

2.79 The committee recommends that ASIC devise and conduct, alongside or within its current Audit Inspection Program, a study which will generate results which are comparable over time to reflect changes in audit quality.

Recommendation 2

3.63 The committee recommends that ASIC work with the International Organisation of Securities Commissions to conduct a comparative analysis of integrity and anti-corruption measures being undertaken in similar jurisdictions.

1. Response to Recommendation 1

ASIC publishes annual audit firm inspection reports that summarise negative findings from our reviews of audit files. Negative findings are made where, in our view, auditors have not performed the work necessary to support their opinion on a financial report. Because ASIC reviews a limited number of audit files (53 files in the 12 months to 30 June 2020) and focuses on higher risk audit areas (179 areas in the 12 months to 30 June 2020), caution should be exercised in extrapolating the level of findings to all audits.

In response to Recommendation 1, ASIC's audit firm inspection reports for the 12 months to 30 June 2019 and 12 months to 30 June 2020 were accompanied by reports of audit quality measures, indicators and other information (AQIs). These reports (AQI Reports) are intended to provide a broader picture of audit quality and are publicly available through the ASIC website ([Report 649 Audit quality measures, indicators and other information: 2018–19](#) and [Report 678 Audit quality measures, indicators and other information 2019–20](#)).

The AQIs published in Report 678 are:

- A. **Output measures** – Measures that are directly affected by the quality of audits:
- negative findings from ASIC audit file reviews;
 - numbers of audits reviewed by ASIC with findings in none, one, two, three, or four or more key audit areas;
 - audits reviewed where ASIC had identified material misstatements of the financial report;
 - material changes to issued financial reports from ASIC financial report surveillances and notices to ASIC from the auditor; and
 - material adjustments to financial reports of top 300 ASX listed entities by market capitalisation (top 300 listed entities) initiated by the auditor before the financial report was issued.
- B. **Input indicators** - Individual factors that may contribute to audit quality:
- relative audit partner, manager and staff time on audits of the top 300 ASX listed entities;
 - average training hours of audit partners and managers of the largest six audit firms;
 - audit fees as a percentage of profit, net assets and market capitalisation for top 300 listed entities; and
 - fees payable to auditors of top 300 listed entities by category of audit and non-audit service.

While these AQIs are not intended to provide a complete representation of the inputs that contribute to audit quality and the optimal level for each AQI will vary from firm to firm and audit to audit, they may be indicative of some of the important elements that may affect audit quality.

- C. **Sentiment indicators** – Results from surveys of audit committee chairs and investors published by the Financial Reporting Council, the Auditing and Assurance Standards Board and Chartered Accountants Australia and New Zealand.

Those output and input measures that are based on public information and ASIC records will be included in ASIC's public audit inspection report for the 12 months to 30 June 2021 (AQIs 1a), 1b), 1c), 1d), 2c) and 2d) above). The other output and input measures (AQIs 1e), 2a) and 2b)) will not be published due to the significant cost to the largest six audit firms of voluntarily extracting the information needed for each AQI and limited evidence of the use of the first two AQI Reports.

2. Response to Recommendation 2

At the time Recommendation 2 was made, the International Organisation of Securities Commissions' (IOSCO) workplan for the remainder of 2019 and 2020 was full. As an alternative, ASIC expanded the scope of its planned conflicts of interest benchmarking work to include Recommendation 2.

ASIC utilised its relationships with other regulators and the services of consultants, to obtain information, on a confidential basis, from a total of 16 entities consisting of domestic regulators and law enforcement agencies, international regulators and regulated entities in the financial services sector (the **Comparators**) to undertake a benchmarking exercise to compare how the Comparators:

- integrated fraud and integrity risks into their broader risk management framework;
- set out the cultural expectations of staff in policies and supported these by clear procedures;
- provided training in relation to fraud and other corruption risks;
- reported integrity and fraud incidents to the executive, and monitored these risks; and
- included effective consequence management into their frameworks.

At a high level, following the PJC Report ASIC:

- considered the maturity of its approach to corruption risk management by conducting a review of ASIC's fraud and corruption policy and plan against a 'maturity model' developed by the Australian Commission for Law Enforcement Integrity (ACLEI). ASIC considers that it is at a mature standard against this model;
- implemented a process for specific ASIC teams susceptible to heightened risks of fraud and corruption, so that following the identification of an incident, a review is undertaken to enhance controls and to consider further action including team-based reflection or training;
- centralised its fraud and risk registers;
- updated its Conflicts Policy to provide additional guidance about when actual and perceived conflicts can arise for staff in the performance of their duties and noting additional controls in place for activities like Close and Continuous Monitoring, which pose a higher risk of regulatory capture. ASIC also decided to publish registers of gifts, benefits and hospitality received by ASIC staff and Commissioners; and
- is in the final stages of developing a proactive compliance monitoring program to strengthen ASIC's Trading Policy framework and implementing additional controls for staff seeking approval to trade. Currently staff are not permitted to trade in a security if the relevant security is on ASIC's Restricted List. Going forward, staff wishing to trade in a security not on the Restricted List, will also need the approval of their direct manager before trading. Previously this additional control was limited to staff working in specific teams for example, Market Supervision.

Furthermore, since February 2019, ASIC has implemented a number of other measures to improve the management of integrity and corruption risks including:

- as part of ASIC's new enterprise risk management framework, business units have actively considered fraud and corruption risks as part of their risk identification

process and recorded these in risk registers which are reviewed on an ongoing basis. Where the risk for a business unit is identified as material, business units are expected to test their controls for areas of improvement. These risks are validated as part of a regular ASIC wide risk assessment;

- since late 2020, an Executive Integrity Committee has operated to enhance ASIC's integrity practices. The Committee is chaired by ASIC's Chief Risk Officer and its membership includes the Chief Operating Officer, General Counsel and an Enforcement Executive Leader. To support the Committee, an Integrity Risk Specialist was recruited to focus on integrity risk identification and control effectiveness across ASIC. The Committee also sponsors a monthly RADAR Working Group of senior leaders from operational areas that manages and responds to integrity risks so that intelligence about themes, trends and emerging cases that may be indicators of integrity risks in the internal operational environment can be shared. This information is then shared with the Committee for oversight and action; and
- ASIC is in the final stages of preparing the launch of a "Speak Up" reporting platform to enhance existing reporting mechanisms and provide all staff with a secure, confidential and anonymous electronic system to report serious integrity concerns including fraud or corruption;

External Oversight

Since 1 January 2021, ASIC has been subject to the jurisdiction of the ACLEI. The *Law Enforcement Integrity Commissioner Act 2006* sets out a framework under which the heads of the subject agencies work in partnership with ACLEI to detect and investigate corruption issues and prevent corrupt conduct within those agencies. It also imposes significant reporting obligations on the ASIC Chair, including to notify the Integrity Commissioner of an allegation, or information, that raises a 'corruption issue' in ASIC as soon as practicable after becoming aware of it. The Executive Integrity Committee maintains oversight of the ASIC-ACLEI interactions and formal engagement procedures.

Yours sincerely

Joseph Longo

CHAIR