

**SUPPLEMENTARY SUBMISSION TO THE JOINT  
COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT  
REVIEW OF INDEPENDENT AUDITING BY  
REGULATED COMPANY AUDITORS:**

**THE PLACEMENT OF STANDARD SETTING IN AUDITING IN  
THE REGULATORY STRUCTURE  
AND EMPIRICAL RESEARCH IN AUDITING**

by

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Submission to the Joint Committee of Public Accounts and Audit  
Parliament of Australia  
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**1.0 INTRODUCTION AND OBJECTIVE OF THE SUBMISSION**

Issues relating to auditor independence can focus on any one or more of a series of stakeholders. In my earlier submission in mid-April 2002 I indicated one possible way forward in respect of the means by which auditors managed and governed their auditor independence process. Other stakeholders also have a role in the process; they include the boards of directors and audit committees of the companies subjected to audit (the auditees), corporate regulators that deal with the disclosure and governance of such companies (Australian Stock Exchange, ASX and Australian Securities and Investments Commission, ASIC), individual and institutional shareholders, the accounting profession more generally and those that govern the auditing standard setting process (Australian Accounting Research Foundation, AARF and the Auditing and Assurance Standards Board in Australia, AuASB). In addition those who study and research the behaviour in the market for audit services have a place in the current debate.

This supplementary submission deals with two specific matters:

- (1) the structural placement of auditing standard setting within the existing regulatory framework; and
- (2) the efficiencies in and benefits of auditing research.

## **2.0 THE PLACE OF AUDITING STANDARDS**

A recent policy document issued by CPA Australia (Larsen, 2002) highlighted the need to simplify the current structure within which accounting and auditing fit. This policy document contains many propositions but I will focus on one. The CPA Australia document acknowledged that there was a need for a one umbrella organization under which much, if not all, of the regulatory structure should sit. In particular for my purposes here, the document argued that both the Auditing and Assurance Standards Board (AuASB) and the Australian Accounting Standards Board (AASB) should function under one umbrella governance organization. While the CPA Australia document calls for a newly developed umbrella organization, Australia already has an umbrella organization which some will argue is adequate for this purpose. This organization, the Financial Reporting Council (FRC), is presently the governance body under which the AASB currently operates. Even some of those who have been sympathetic to the creation of FRC have acknowledged that it has taken some “settling-in” time for the organization to be fully effective, I believe there are sound reasons for suggesting that FRC is now functioning well. Because of this and given the likely cost of substantial restructure of such an organization (in time, money and stability), I would propose that the AuASB and the AASB both sit under the control of the same umbrella organization; that organization being FRC.

### **2.1 Benefits of the Repositioning of the Auditing Standards Board**

At present the AuASB operates under a joint management agreement between CPA Australia and the Institute of Chartered Accountants in Australia. These organizations are both important professional organizations within our community with strong professional standards and ideals. The cost burden of the AuASB on these two organizations while not onerous is still substantial. However, it must be acknowledged that these two organizations do not represent the only stakeholders in the market for audit services. Similar to the AASB, the AuASB has in reality many stakeholders from many different parts of the community.

As a consequence of the present structural arrangements, membership of the AuASB is largely, if not entirely, restricted to those individuals who are approved by both the Institute of Chartered Accountants in Australia and CPA Australia. Intentionally or unintentionally this may give rise to a predisposition towards the selection of certain types of persons who serve on the AuASB. This is not to impugn the competence, integrity or diligence of the members of the Board both past and present, however, an alternative selection process which might bring a broader range of members to the Board could only be advantageous.

Additionally, the present structural arrangements have the potential if not actual disadvantage of the professional bodies exclusively setting the AuASB's agenda. Again, should there be a broader representation on the board, alternative items may or may not be determined within the auspices of the AuASB or more particularly the timing and urgency of issues may be reordered with a different membership process.

Therefore, for reasons relating to both the content and timetable of the AuASB as well as its governance and cost, it is recommended that the AuASB be placed under the same umbrella organization as the AASB under the oversight of the FRC.

### **3.0 RESEARCH IN AUDITING**

It has been widely acknowledged that Australia has been a world leader in empirical (real world) research in auditing. In part this statement is true because of the availability of data in respect of auditing. Data availability is crucial to empirical (as opposed to theoretical) research. Data availability has become an increasing concern in some quarters of the academic community. In part this limitation on data has transpired because of the lack of resources in higher education but it is also true that the appropriate regulatory authority (ASIC) has a policy of charging researchers the same commercial rates for access to data that any commercial user would be obliged to pay.

There are significant economic and social benefits from data availability to researchers engaging in real world (empirical) research.

It is recommended that appropriate regulatory bodies, perhaps under the auspices of ASIC or FRC, establish a research committee comprising acknowledged auditing researchers, regulators and practitioners and possibly chaired by the Executive Director of the AARF and the AuASB in order to both adjudicate requests for data that are non-trivial and deal with important research questions. Such data could then be made available at marginal cost to scholars to engage in empirical research in auditing.

#### **4.0 CONCLUSIONS**

This supplementary submission is focused on two specific issues:

- (1) the placement of the AuASB within the existing framework; and
- (2) the availability of data on the market for audit services.

The recommendations while being specific will give rise to two benefits. One, in respect of the placement of the AuASB, will allow all stakeholders to at least have the opportunity of representation and input into the audit standard setting process and will remove the burden (both cost and organizational) of the existence of this body from the two professional accounting bodies. Two, accessibility to data held by the public sector regulator for research will facilitate Australian auditing scholars to engage in relevant and timely auditing research.

I would be pleased to have the opportunity to comment further relating to this brief supplementary submission and answer any questions that the Committee may have.

**K.A. Houghton**

## **REFERENCE**

Larsen, G., "Financial Reporting Framework – The Way Forward: A Proposal from CPA Australia", May 2002  
(website: [www.cpaonline.com.au/01\\_information\\_centre/1\\_0\\_0\\_0\\_home.asp](http://www.cpaonline.com.au/01_information_centre/1_0_0_0_home.asp))