

19 June 2002

Mr Bob Charles MP  
Chairman  
Joint Committee of Public Accounts and Audit  
Room R1, 108  
Parliament House  
CANBERRA ACT 2600

Dear Mr Charles

**Re: Review of Independent Auditing by Registered Company Auditors**

The National Institute of Accountants (NIA) is one of the three Professional Accounting bodies in Australia. The NIA is keen to work with the Joint Committee in defining the balance between government regulation and industry self-regulation. The NIA's position is that "co-regulation" between the government (including the various statutory bodies) and the professional accounting bodies is the cornerstone to effective regulation of the profession.

The recent corporate collapses have had the effect of forcing the professional accounting bodies to look more carefully at their roles in the profession and how best they can improve the performance of the profession. The NIA does not believe that a radical shift towards greater regulation or self-regulation is needed. Rather the NIA believes that improved communication between the three bodies and with the government will help to maintain Australia's position as a world leader in the accounting and auditing profession.

In order to facilitate this, the NIA has suggested the establishment of a number of co-regulatory bodies, under the umbrella representation of a new body made up of representatives of the professional accounting bodies and government. The overseeing body would be known as the **Accounting Professional Standards Board** which would oversee the work of the following Committees/Boards:

- **The Ethical & Professional Standards Committee:** Charged with the development of ethical and professional standards for the whole accounting and auditing profession;
- **The Audit Competency Board:** To establish the audit competencies and to register company auditors against those competencies; and
- **The Specialist Accreditation Board:** which would be responsible for determining and awarding specialist accreditation for accountants.

In conjunction with these reforms the NIA believes that there should also be a merger of the Company Auditors and Liquidators Disciplinary Board (CALDB) and the various disciplinary committees of the three professional accounting bodies. This new Disciplinary Board would be responsible for hearing disciplinary cases against accountants, auditors and liquidators for their breaches of professional and ethical requirements and for breaches of certain statutory requirements.

The NIA is keen to further develop these reform proposals with the Joint Committee, as well as the other professional accounting bodies. Australia should be proud of the overall performance of its accountants and auditors, however that is no excuse for not seeking to improve the current arrangements.

The NIA wishes to participate in the public hearings the Joint Committee is conducting as we believe it is important that the Joint Committee hears the views of a professional body representing 12,000 accountants. Please contact either Gavan Ord (Technical Policy Manager) on (03) 8665 3114 or Reece Agland (General Counsel) on (03) 8665 3115 to discuss these proposals further.

Yours sincerely

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# **Joint Parliamentary Committee of Public Accounts and Audit**

## **Review of Independent Auditing by Registered Company Auditors**

### **Terms of reference**

*With the spate of recent noteworthy corporate collapses both within Australia and overseas, the Joint Committee of Public Accounts and Audit wishes to explore the extent to which it may be necessary to enhance the accountability of public and private sector auditing. In particular, the Committee is keen to determine where the balance lies between the need for external controls through government regulation, and the freedom for industry to self-regulate.*

### **INTRODUCTION**

The National Institute of Accountants (NIA) is one of the three recognised Professional Accounting Bodies Australia, together with the Institute of Chartered Accountants in Australia (ICAA) and CPA Australia, that help co-regulate and monitor the activities of accountants and auditors. As such the NIA has a number of proposals and issues it would like to raise with the Joint Parliamentary Committee.

The recent spate of corporate collapses has caused the accounting and audit profession, as with others, to look closely at the way the industry is structured and to consider whether more can be done to improve the profession as a whole. This self-analysis has been cathartic for the profession and will help to ensure that it is capable of addressing issues not only of today but in the future. However it is also important when addressing problems that the “cure” is not worse than the “disease” it is trying to eliminate. Any action taken should not be a “knee jerk” reaction or an attempt at shifting the blame. The profession as a whole recognises the need for change, however such change need not be radical, rather it requires a new relationship between the professional accounting bodies and the Government to address issues of who is responsible for regulating what, and how.

## ***Regulation, Self-regulation and Co-regulation***

There will always be differences of opinions as to what is the right mix of government regulation and industry self-regulation. Some regard “self-regulation” as equivalent to no regulation. However for a profession, self-regulation has always been an important element in what differentiates a profession from other areas of work. For professional bodies, such as the NIA, a self-regulatory role is in effect one of the “*raison d’être*” of such organisations. From early on in the development of the professions, there was the need to establish codes of conduct and minimal levels of competency in order to gain public acceptance of the profession. This meant that they also had to be strict on those who did not comply with the rules of the profession as well as take action to remove the most serious offenders from their ranks. As time has progressed government regulation has grown and with that the public expectation of government has grown.

This causes a tension between the “professions” need to retain some degree of control over activities in the profession and the increasing public demand for government action. The limitation of government regulation is that it is often divorced from the day to day operations of the profession. The statutory bodies that regulate the profession are seen by some as distant and detached and staffed by people who do not have a strong grounding in the profession they are regulating. The professional bodies on the other hand have daily contact with the profession, are aware of issues that exist in the profession and therefore are better able to move the profession towards achieving certain goals. Of course there are some areas where public policy dictates that Government regulation must override the concerns of the profession.

The NIA believes that the current mix of regulation (government), self-regulation (through the professional bodies) and co-regulation (the professional bodies working with government regulators) is the right system. While the mix may need some adjustments and areas of responsibility may need to be reviewed, a wholesale change towards one extreme or the other is unwarranted. The NIA believes that greater co-regulation of

certain areas will ensure that Australia continues to have the "world's best practice" in the accounting and auditing profession.

### *Regulation*

Regulation in this submission refers to those requirements established by governments through legislation and regulation to regulate the activities of certain persons. Regulation is important because it is unambiguous and is known to the public and those being regulated. It is also important because it is seen to be "above" those it regulates and enforceable through the *Law*. Regulation therefore should cover those areas of the profession, which are of the highest public concern and therefore require the supervision of a statutory body as a matter of public interest. Even in regulation there is the need for the input of professional bodies to ensure that the proposals are workable and effective.

Regulation is increasingly being seen by some as the answer to any problems that arise. This reflects a perception by such people that the Government should play a guiding hand to ensure that outcomes protect all sectors and do not favour one group over another. The *Corporations Act 2001* is an important element in this regulatory environment. The need to protect various interest groups (shareholders, directors, companies, the public) and to have an open and accountable system, dictates the need for strong, clear regulation. With the recent corporate collapses (most notably Enron) some commentators have called for greater regulation of auditors. The question then, is this needed? And if so, what is the best way to achieve the changes required? Is "regulation" the only answer?

In the NIA's response to the Ramsay Report (annexed to this submission for your perusal) the NIA recognised that there was public demand for greater regulation of certain aspects of the auditing profession and outlined a number of areas where further regulation may be warranted. The NIA's belief however is that regulation is only part of the solution and the role of the professional bodies should not be overlooked either. The NIA submission on audit independence recommended the following legislative and regulatory reforms of auditing:

- Make changes to the *Corporations Act 2001* to require all auditors to be “independent”;
- Require the rotation of audit firms and senior audit staff;
- Limit the ability of audit firms to undertake non-audit services for their audit clients;
- Requirements for independent audit committees of listed companies and disclosing entities and;
- A conclusion being made to the Review of the Requirements to be a Registered Company Auditor, as a matter of urgency, that meets the concerns of the NIA.

However in responding to the Ramsay Report, the NIA also called for the professional bodies to reform the way they regulated aspects of the profession. The two sets of reforms cannot be seen in isolation and each must work with the other. The profession needs to be involved in the reform to the regulations affecting it and the government should have some involvement with the reforms or of the profession itself.

It is also important to ensure there is not excessive or inappropriate regulation. One example of where regulation has been less effective than it should have been can be found in the Registered Company Auditor (RCA) requirements. It has long been recognised that the system was not working as effectively as it should have and is in need of reform. However despite numerous reports, proposals and suggestions, no legislative amendments have yet been passed.

It is important that any legislative changes be drafted with the co-operation of the professions being affected by the changes. While the desires of the profession should not always be paramount, the professions should be brought on board at an early stage to ensure that each side appreciates what the other is trying to achieve. An example of where this can be a problem was highlighted to the accounting profession through the implementation of the *Financial Services Reforms 2001*. While supportive of the general process, the accounting profession was not as widely consulted on the impact of the

legislation on accountants as it should have been. This has led to the accounting profession having to seek changes and amendments after the legislation has been introduced. However if greater co-operation had been included throughout the process, there would not be the problems that exist today. Furthermore by working with the professional bodies at an early stage they can adapt their own requirements to fit in more effectively with the outcomes that are being sought.

It is also important that there is greater consistency between the Federal audit requirements and those of the myriad of State based legislation and regulation of auditors. One problem the NIA has encountered on numerous occasions has been the misuse of the RCA requirement in State legislation. Federal legislation recognises the fact that RCA is a heavy requirement suitable for large corporations and reporting entities. However State legislation often attaches the RCA requirement on small entities that do not need and cannot bear the cost of RCA. The Joint Parliamentary Committee should have regard to this as it debates the need for regulation and self-regulation, and ensures any new regulatory requirements are applied fairly across the board.

Therefore the NIA recommends that any regulatory changes to the accounting and auditing profession arising from the Joint Parliamentary Committee's review should be drafted with the professional bodies from the beginning.

### *Self-regulation*

It is important that for the accounting profession to prosper and to maintain a high level of professionalism, the three professional bodies must have a role in the regulation of their profession together with the monitoring individual professionals to ensure that they are meeting the high standards expected of the accounting profession. There are a number of areas in which the professional bodies are better able to "regulate" the profession rather than the statutory bodies.

One area that the NIA believes is important to remain in the hands of the professional bodies, is the investigation of the activities of their members. When an accountant or auditor joins one of the professional bodies they are agreeing to abide by the rules and requirements of that body. Part of the reason for joining one of the professional bodies is the fact that they are saying to the public we are accountable to our peers and our profession for our actions. It is therefore vital that the professional body be responsible for monitoring the activities of its members. This requires the power to investigate the activities of members and to be able to take action against individual members for breach of those duties. Some may say that a body cannot effectively investigate their own members as there is a conflict of interest. However as noted before a “professional” body, such as the NIA, must primarily have regard to the effect on the profession and the other members of the NIA in particular. We lessen the value of their membership if we do not take appropriate action against recalcitrant members. It is therefore in our best interests to be firm with such members. Professional bodies should therefore retain the power to investigate their own members and take necessary action against them.

Another area of professional self-regulation that should be retained is in defining the educational and the professional requirements of membership of the profession. The accounting profession is different from the medical and legal professions in that membership of a particular professional association is not mandatory and there is choice and competition between the different bodies. This is important in promoting the diversity and efficiency of the sector. The professional bodies are the ones most able to assess a person’s qualifications and experience and determine their ability to perform certain tasks. Therefore the NIA believes it is also important that defining the educational and professional requirements of membership be left with the professional bodies. In retaining self-regulation of these activities this does not mean that the government should have no role to play, however that role should be through discussions with the professional bodies.

These are some of the areas of self-regulation by the profession, but there are numerous others. The point is to highlight that there are areas where the professional bodies have



particular skills or knowledge that makes them the most effective to undertake certain forms of self-regulation.

### *Co-regulation*

Co-regulation is the most effective means to achieve the complementary goals of the profession and the government to raise standards and protect clients interests. The Government, Statutory Bodies and the Professional Bodies have various mechanisms whereby they act together or discuss certain issues affecting the profession.

However most of these co-regulatory activities are not well documented or understood by the public. The NIA believes that any further reform to the accounting and auditing profession should be achieved through formalised co-regulation mechanisms. Such mechanisms would understand the strengths and weaknesses of the various forms of regulation/self-regulation and attempt to maximise the benefits that each has. The following NIA reform proposal will assist in maintaining the high level of professionalism in the Australian accounting and auditing profession.

### **NIA Reform Proposal**

The NIA believes there is greater room for the three professional accounting bodies to work closely with the government and statutory bodies in order to provide greater co-regulation of the accounting and auditing profession. In preparing this proposal, the NIA has reviewed the CPA Australia proposal “*Financial Reporting Framework – The Way Forward*”, as well as the UK and US regulatory models for the profession. The NIA believes these reforms will improve the outcomes for clients, the profession and government with out adding too much burden or expense.

### *Financial Reporting Council (FRC)*

The Financial Reporting Council (FRC) was established to coordinate the development of Accounting Standards and to help raise financing for their development. The FRC oversees the development of the standards by the Australian Accounting Standards Board (AASB). This model reflects the UK model. The FRC provides representation not only of the accounting profession but other interested parties (such as the ASX) who either use or depend on the Accounting Standards. Previously the Accounting Standards were jointly developed by the ICAA and CPA Australia in conjunction with the auspices of the AASB and the Australian Accounting Research Foundation (AARF). These standards effectively became the property of the two bodies, despite being requirements under the *Corporations Act 2001*.

In its report CPA Australia calls for a further change in the way that the accounting and auditing standards are set. It proposes a body made up of the professional accounting bodies (though the CPA Australia proposal does exclude the NIA, and therefore a significant portion of the market) and the government to set the accounting and auditing standards and to also be responsible for establishing the professional and ethical standards of the accounting profession. This new body would not have the same wide representation as the FRC currently has and would be responsible for setting both the Accounting and Auditing Standards as well as the Professional and Ethical Standards.

The NIA does **not** support the proposals as set out by CPA Australia. The FRC model has only recently been implemented and the NIA is unaware of any reason why the process should be changed. The current arrangements allow for a wider representation than just the accounting profession, (something the NIA supports), and financial reporting encompasses more than just the accounting and auditing profession and this should be recognised in the composition of the FRC. The CPA Australia proposal, in the NIA's opinion, makes an unnecessary back track on the reforms that have already proceeded without any tangible benefits. The current FRC requirements are generally recognised as

an improvement on the previous system and the NIA sees no reason why this should not be maintained.

Furthermore the Accounting Standards are not the same thing as the professional and ethical requirements of the profession. The Accounting Standards deal with the way certain accounting concepts should be dealt with and how they should be reported. The ethical and professional requirements deal with the way accountants and auditors conduct their business and deal with clients and other professionals. There is no synergy to be gained by combining them, if anything it would distract, not enhance the development of the Accounting Standards. The NIA does not believe the system will be enhanced by combining the development of the Accounting Standards (which affect more than the profession) and the Ethical and Professional Standards of the profession, (which are the concern of the profession).

Some commentators have also called for the FRC to take on development not only of the Accounting Standards but also the Auditing Standards. Currently in Australia only the Accounting Standards are mandated under the *Corporations Act 2001*, while the Auditing Standards are not. The Auditing Standards are still set by the other professional bodies. The NIA does support the Auditing Standards being developed under a similar framework as the FRC, that is, independent but not exclusive of the professional bodies, including the NIA. However there are significant differences between the Auditing and Accounting Standards such that there may be little gained by developing them together. Therefore, the NIA suggest that the FRC should not be responsible both for the development of the Accounting and the Auditing Standards. Once the Auditing Standards are being developed and set totally independent of the professional bodies, the Auditing Standards must be incorporated into the *Corporations Act 2001*, therefore having the force of the *Law*.

The main concern with the FRC currently, is the lack of adequate funding. Unless this can be alleviated, the FRC would not be capable under its current funding to undertake setting both the Accounting and the Auditing Standards. The NIA believes the main

focus for the FRC should be on means to secure greater and more consistent funding for the development of the Accounting Standards.

## *Professional Standards in the Profession*

While the NIA is **not** supportive of the CPA Australia proposal to have a body that deals with both the Accounting Standards and the Professional Standards, the NIA does believe a mechanism needs to be developed to produce one set of ethical and professional standards for the entire profession. Such a body would need to involve the **three** professional bodies<sup>1</sup> and the government. The NIA's proposal differs slightly from the CPA Australia proposal however the intention remains the same, to raise standards in the profession and to work with the government on issues affecting the profession as a whole.

The NIA's proposal is to have one overseeing body that would control a number of committees and boards that deal with specific professional issues.

### **The Accounting Professional Standards Board**

The NIA proposes the establishment of an overseeing body, namely the Accounting Professional Standards Board (APSB), which would oversee the following committees/boards:

- Ethical & Professional Standards Committee;
- Audit Competency Board; and
- Specialist Accreditation Board;

It is recommended that the Accounting Professional Standards Board (APSB) should be the head body with representation from the **three** professional Accounting bodies (NIA, CPA Australia and ICAA). It would also have representation from the government (whose representatives could be drawn from Statutory Bodies – such as the ATO, APRA,

ASIC) and from academia. Its responsibility would be to:

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<sup>1</sup> "Financial Reporting Framework - The Way Forward", the CPA Australia proposal to this Committee states that there is only two professional accounting bodies, being ICAA & CPA Australia. This is not the case. Legislation, regulation & the profession recognise that the NIA, with 12,000 members, is the third

- Oversee the operation of the various Committees/Boards;
- Undertake regular reviews of Professional Standards issues;
- Act as a liaison between Statutory Bodies and the Accounting Bodies on issues of Professional Standards.

The Registrar would also act as a point of information sharing between the Professional bodies and various statutory authorities. One of the problems the professional bodies sometimes encounter is the fact that certain statutory bodies (such as ASIC) do not always inform the professional bodies of when they have taken action against one of their members or information about the case at hand. This makes it difficult for the professional accounting bodies to take necessary and timely action in some cases. It is only if information comes to hand from other sources (such as the media or the member themselves) that they become aware that there may be cause for investigation. This is not the most effective system. It is important for information to be shared on a timely and equal basis. The APSB could become a mechanism whereby statutory bodies could share information with the professional bodies. The open communication of information affecting the profession is vital and it is in the interests of these statutory bodies, as well as the three professional bodies, for a formal information sharing mechanism to be developed.

The composition of this body would be 50% from the professional accounting bodies and 50% government nominees. A six person Board would be made up of one representative each from the ICAA, CPA Australia and the NIA and three appointed by the government.

The APSB should be funded from government and the professional bodies as well as from charging fees for certain activities (such as Audit and Specialist Accreditation). The government as well as the three professional bodies should fund the APSB. The funding from the professional bodies should be proportionate to their size.

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professional accounting body. Any recommendations of this Committee should therefore be inclusive of the three bodies.

### **Ethical and Professional Standards Committee (EPSC)**

This body would be made up of representatives of all **three** professional accounting bodies and look into setting one common set of Ethical and Professional Standards for all accountants in Australia with some representation from government. These standards would be based (where reasonable) on the International Federation of Accountants (IFAC) standards. Currently CPA Australia and the ICAA have joint professional standards and these are based largely on the IFAC rules. The NIA have requirements on a par with CPA Australia and ICAA. However, what is of significant concern to the NIA is there are no defined standards for those who are not members of any of the three accounting bodies.

The NIA believes that there should be one body set up to exclusively research and develop Ethical and Professional Standards for the profession as a whole. These standards would then be applicable not only to members of the three professional bodies but to all accountants and auditors, whether or not they are members of a professional body. This may require some legislative changes but would be welcome by most of the profession. Such Professional and Ethical Standards should be freely available to the public so that the public is informed of these standards and is made aware of the responsibilities of accountants and auditors.

The composition of this Committee would be as follows; two representatives from each of the three professional bodies. The government should also be able to nominate up to three additional persons, drawn from academia and the public to give oversight and independence to the development of such standards.

### **Audit Competency Board (ACB)**

The ACB's purpose would be to establish, accredit and review Audit Competency Standards as they will apply to Registered Company Auditors (RCAs). As noted earlier, one of the problems with the current RCA requirements is that they are inflexible and hard to change. It has been widely suggested that changes be made to the *Corporations*

*Act* to refer to audit competency as the requirement for registration. The NIA would welcome such a change however it is concerned about the way those audit competencies will be developed.

The NIA is of the belief that it should not be the role of the professional accounting bodies to be the sole determinants as to the “competency” of auditors. Rather, an independent body that involves the **three** professional bodies, as well as government representation should monitor auditor competencies.

The Board would not only establish the competencies but would also be responsible for registering RCAs and overseeing that those who have the competencies maintain their skills. Regular reviews of the Competency Standards would be undertaken to take account of changes in the profession and of the Auditing Standards. This Board would be responsible for ensuring appropriate Continuous Professional Education was being undertaken by those registered and could remove that registration for failure to maintain those standards.

Membership of this committee would include representatives from each of the **three** professional bodies. The NIA suggests up to three Government appointees also (likely to be drawn from ASIC and academia). Funding would come from charging registration fees for RCAs.

The recommendation to adopt audit competencies as the basis for registration as an RCA came out of the *Review of the Registration of Registered Company Auditors* (commissioned in 1994 and releasing its report in July 1997). Changes to the *Corporations Act 2001* recommended in this report have yet to be adopted.

Although the NIA does not support many of the recommendations of the Review, we believe it has been extremely detrimental to the Auditing profession that the Review has made very little progression since its report was released in July 1997.



The NIA recommends to the Committee that it strongly puts forward the view that the Review process be re-started and brought to a conclusion as a matter of urgency. The NIA also recommends that the Committee urge the Government to ensure that the legislation and regulation to register as a RCA does not disadvantage members of the NIA or accountants who choose not to be members of any of the **three** professional bodies.

In particular, the NIA recommends the re-drafting of s1280(2)(a)(i) of the *Corporations Act 2001* (Registration of Company Auditors and Regulation which allows members of foreign accounting bodies to register as company auditors, so that members of the NIA with suitable qualifications can become RCAs. There is no public interest reason why NIA members should be discriminated against in RCA legislation, particularly when foreign accounting bodies are not.

### **Specialist Accreditation Board (SAB)**

The accounting profession is one characterised by those with wide generalist knowledge but also increasing specialist fields. The purpose of the SAB would be to set criteria for certain specialist areas of accounting and finance and accredit accountants for these areas. Specialist accreditation would be in areas such as Superannuation, Taxation, Financial Planning, Corporate Trustee, and Accounting Systems (to name but a few). It is important that those who work in specialist areas not only have the skills necessary for that specialisation but also maintain those skills after their formal education. By accrediting accountants as specialist members of the public we will be able to feel comfortable in the knowledge that the accountant has recognised skills.

The SAB would be responsible for setting minimal standards of education and experience for various specialist areas and would assess individual applicants to see if they meet those standards. Such standards would also need to include requirements such as Continuing Professional Education in that area of specialty and that a minimum number of hours are spent each year on related work.

Such a Board would need to be made up of representatives of each of the professional accounting bodies and government representatives along similar lines to those for other committees/boards outlined in these reform proposals.

### **Audit Independence Committee**

Some commentators have called for an independent body to oversee the issues of Audit Independence. While the NIA remains unconvinced of the need for such a body, if it was seen as necessary, it could be adopted as part of these reform proposals. Such an Audit Independence Committee would be responsible for overseeing the Australian requirements in relation to Audit Independence, and it could also be available to offer advice to companies that want to protect Audit Independence by suggesting actions they could undertake (such as setting up audit committees of the Board of Directors).

### **Accountant, Auditor and Liquidator's Disciplinary Board (AA&LDB)**

As with the CPA Australia proposal, the NIA supports a separation of the investigation and disciplinary mechanism. While the NIA strongly believes that the role of investigation should be left with the professional bodies, the NIA does believe that disciplining accountants and auditors should be separate and seen to be separate from the bodies. The reason for this is that the public must believe that action is being taken in their interest and not just the profession. While the NIA does not believe that the actions of the individual disciplinary boards of the various professional bodies has been deficient, there are benefits to be had from having a more independent body responsible for disciplining accountants and auditors. The AA&LDB would not form part of the proposed Accounting Professional Standards Board.

It is also important to ensure that the composition of such a Disciplinary Board be representative of both the accounting and auditing profession and a wider section of the community.

The AA&LDB would replace the **three** disciplinary committees of the professional bodies as well as the Company Auditors and Liquidators Disciplinary Board (CALDB). This will prevent duplication of work as well as ensuring the profession is speaking with one voice on these matters. It should also ease some concerns that the professional bodies do not take disciplining their members seriously and that there is a conflict of interest with the bodies disciplining their own members. The NIA does not share this belief but these proposals should address the concerns.

The NIA would also suggest that such a Disciplinary Board may also take on disciplinary action for the Tax Agents Board. It will also ensure that there are proper mechanisms for the professional bodies to share information about the actions of some of their members. This is important to stop an accountant being disciplined by one body then seeking to apply for membership to another.

The decisions of the Board would need to be publicly available and publicized by the professional bodies in their own publications. The public needs to be made aware that these mechanisms exist and aware of what the outcomes are. The professional bodies would have to undertake to follow the decisions of the Board in taking action against their members (only the professional bodies can in effect impose penalties on a member for a member's breach of the bodies *Code of Conduct*).

Composition of the Board would be as follows:

- A Chairman and A Deputy Chairman (who shall be independent of the Professional Accounting Bodies);
- A Member and a Reserve Member from the ICAA;
- A Member and a Reserve Member from CPA Australia;
- A Member and a Reserve Member from the NIA; and
- Up to three additional members with specialist accreditation, not nominated by any of the Professional Accounting Bodies.

While the majority of those on the AA&LDB would need to be specialists with wide industry experience and impeccable professional records, it would be advisable for the Chairman to be someone not from the profession, preferably drawn from the legal profession with significant experience in hearing issues of ethical and professional misconduct. This would ensure that it was not just the profession reviewing the profession, while maintaining a high standard of representation.

## **Conclusion**

The auditing and accounting profession in Australia is recognised as one of the most professional and as having some of the highest standards in the OECD. However that is no reason or not to look at means to improve the regulation, self-regulation and co-regulation of the profession. The NIA has highlighted the need to create formalised co-regulatory structures that will help the profession into the future. The NIA believes that only by working more closely with each other and the government, can the professional accounting bodies ensure the highest standards in accounting and auditing are maintained in Australia.

The Accounting Professional Standards Board will help the professional bodies to co-ordinate issues of professional and ethical standards and will bring the government into the process as well. This body will ensure that the other committees/boards are working effectively and act as a liaison between the professional bodies and various statutory bodies.

The Ethical and Professional Standards Committee will ensure that there is one set of ethical and professional requirements that apply to all accountants no matter what professional body they are a member of or even if they are not a member of any of them. This will not only help the profession but will also ensure the public knows what the responsibilities of the profession are.

The Audit Competency Board will establish and implement a unified standard of audit competency for the Registration of Company Auditors.

The Specialist Accreditation Board will help to ensure that those accountants who choose to be specialists in various fields can be properly accredited for this.

And lastly the Accountant, Auditor and Liquidator's Disciplinary Board will provide a uniform approach to the disciplining of accountants and auditors.

The NIA believes that the suggested reforms will go a long way to ensure that the professional bodies are maintaining the highest standards in the profession and that there is synergy between the actions of the professional bodies and of the government.

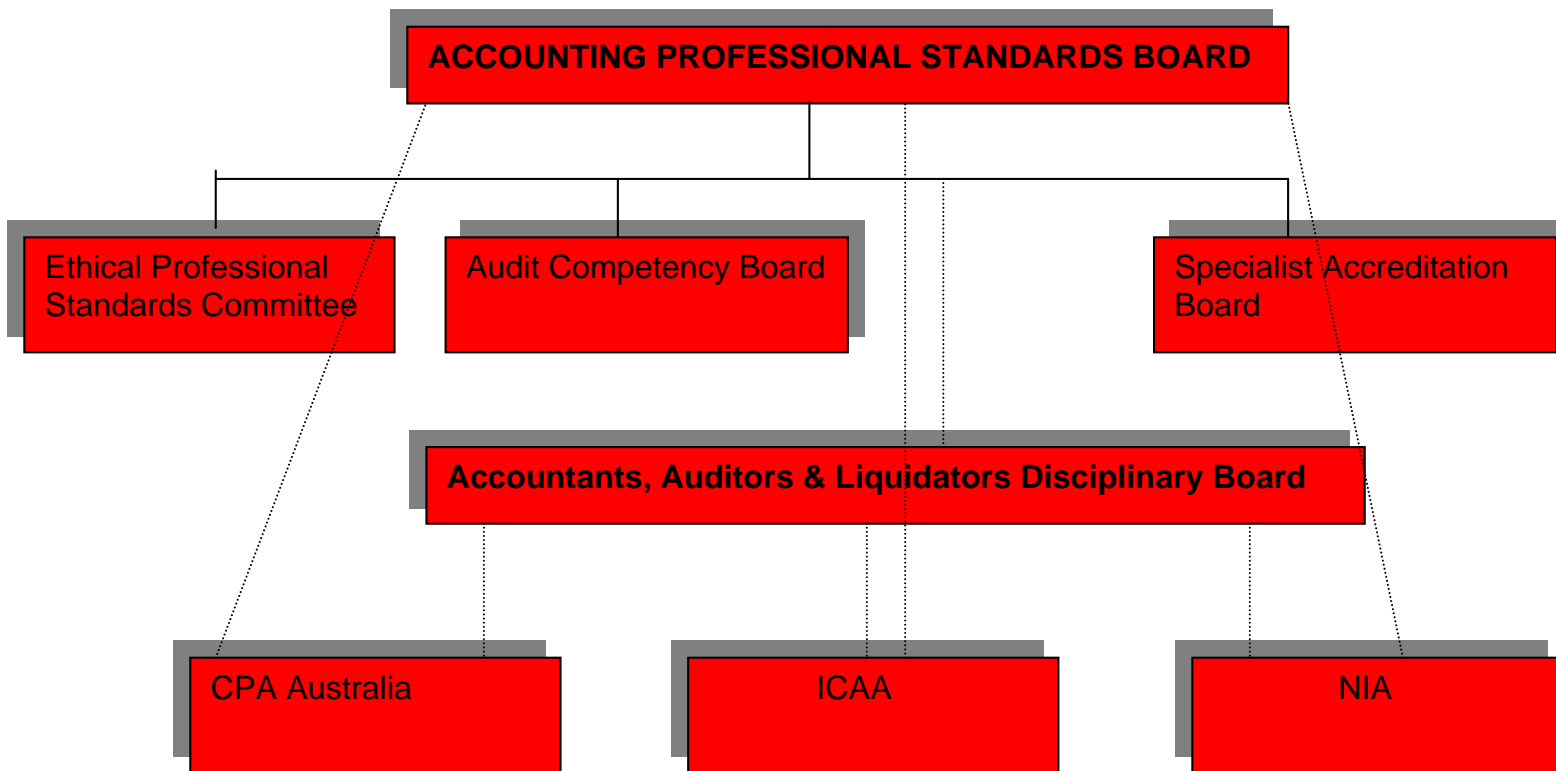
## EXECUTIVE SUMMARY

The following are the key recommendations of this NIA proposal to improve the self regulation, co-regulation and regulation of the accounting and auditing profession.

### RECOMMENDATION 1:

The NIA proposes that a formal structure of co-regulation be adopted between Government and the three professional bodies.

#### Proposed Structure of the Three Professional Bodies & Government Co-Regulation



### RECOMMENDATION 2:

The Accounting Professional Standards Board be the peak body between the government and the three accounting bodies to co-ordinate the formulation of professional and ethical standards for the accounting and auditing professions.

**RECOMMENDATION 3:**

The Ethical and Professional Standards Committee be responsible for the development of ethical standards for members of the three accounting bodies as well as accountants and auditors not members of those three bodies. Such a committee should comprise appointments by the Government in addition to appointments from the three professional bodies.

**RECOMMENDATION 4:**

The Audit Competency Board be responsible for the establishment of audit competencies used as the basis for registration as a Registered Company Auditor.

**RECOMMENDATION 5:**

The Specialist Accreditation Board be responsible for establishing the competency, skills and experience an accountant may require to become an accredited specialist in the accounting profession.

**RECOMMENDATION 6:**

The Accountants, Auditors & Liquidators Disciplinary Board replace the Disciplinary Committees of the NIA, CPA Australia and ICAA to ensure greater independence from the investigation process and the body a member belongs to.

The following recommendations relate to the Ramsay Report on Audit Independence and the Review of Requirements for the Registration and Regulation of Company Auditors.

**RECOMMENDATION 7:**

The requirements for where a Registered Company Auditor is appointed for an audit, be made consistent between Commonwealth and State Legislation.

**RECOMMENDATION 8:**

The Audit Review Working Party be re-established as a matter of urgency and include all key stakeholders, including the NIA.

**RECOMMENDATION 9:**

The Audit Review Working Party put forward its recommendation to Government, as a matter of urgency and that the Working Party be instructed not to discriminate against NIA members.

**RECOMMENDATION 10:**

Upon receipt of the final recommendation of the Working Party, the Government give priority to any legislative and administrative changes required from the recommendations.

**RECOMMENDATION 11:**

The professional association membership requirements of s1280(2)(a)(i) of the *Corporations Act 2001* for registration as a company auditor be repealed and replaced with requirements that do not discriminate against NIA members.

**RECOMMENDATION 12:**

The list of overseas professional associations in Corporations Regulations 9.2.01 be repealed and preference be given to Australian bodies, such as the NIA, that require study in Australian law and financial reporting requirements.