

Senate Economics Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates, 15 February 2006

Question: AT 13

Topic: *Provide forward program and project history for audit independence sub committee*

Hansard Page: **E104**

Senator WONG asked:

I understand that. I am actually interested in the forward work program. I am interested in understanding what the audit independence subcommittee has done to date, what reports are being published and what it is intending to do over the next two or three years.

Mr del Busto—With respect to what it has done, the last report is the one produced for the 2004-05 financial year which Mr Murphy referred to. As for the forward work plan for the current financial year, the FRC is currently engaging short-term consultants to assist in some of the specific functions they have been given as per CLERP 9. Three areas in particular are going to be examined with the assistance of these consultants. One is a review of the quality review programs of the professional accounting bodies, which is one of the functions of the FRC. That will be undertaken in more depth. Another is a review of the disciplinary procedures of the professional accounting bodies.

Senator WONG—Would it be possible for you to provide on notice an indication of this information? I would like in a written form an indication of the forward program.

Mr del Busto—Yes, most definitely.

Answer:

The FRC's specific auditor independence functions are set out in subsection 225(2B) of the *Australian Securities and Investments Commission Act 2001* (ASIC Act).

In addition, under subsection 235BA of the ASIC Act, the FRC is required each year to give the Minister a report on the performance of its auditor independence functions, the findings and conclusions reached by the FRC in the performance of those functions and what (if any) action was taken by the FRC in respect of those findings and conclusions. The FRC must give the report to the Minister as soon as practicable after 30 June in each year and in any event before 31 October.

To facilitate the performance of its auditor independence functions, the FRC has entered into Memoranda of Understanding (MOU) with the three professional accounting bodies, the Australian Prudential Regulation Authority, Australian Stock Exchange and ASIC. These MOUs provide for the efficient exchange of information between the MOU bodies and the FRC. In view of the key role played by ASIC in providing the FRC with information about Australian auditors' compliance with auditor independence requirements, ASIC and the FRC have agreed that in 2006 they should meet each quarter instead of half-yearly as provided for in their MOU.

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The 2004-05 FRC report on auditor independence was submitted to the Minister on 13 October 2005 and tabled in Parliament on 24 October 2005. In 2004-05, the first year in which the FRC was required to report on the auditor independence functions, the FRC focused on gaining an understanding of all the various stakeholders' attitudes and monitoring systems in relation to auditor independence. As a consequence, its report provided a high level overview of auditor independence issues and was published in conjunction with the FRC's annual report (as permitted by the ASIC Act).

The FRC's 2005-06 independence report will be published as a separate report. In it the FRC will be addressing issues associated with each of its auditor independence functions. As noted in its 2004-05 independence report, particular attention will be given to the following issues:

- the quality review programmes of the professional accounting bodies;
- the disciplinary procedures of the professional accounting bodies;
- teaching of professional and business ethics by, or on behalf of, the professional accounting bodies;
- compliance with audit related disclosure requirements; and
- a comparison of Australia's requirements on auditor independence with the requirements in other jurisdictions.

The Treasury is currently undertaking a tender process for the appointment of three additional consultants to assist the FRC in its work on audit independence. The proposed consultancies are in the areas of Disciplinary Procedures of the Professional Accounting Bodies, Quality Review Programmes of the Professional Accounting Bodies and the Teaching of Professional and Business Ethics by, or on behalf of, the Professional Accounting Bodies. These tender processes are yet to be finalised and the work to be performed by the consultants will continue into the first half of 2006-07.