

15 April, 2004

Dr Kathleen Dermody
Secretary
Parliamentary Joint Committee on Corporations and Financial Services
Suite SG.64
Parliament House
CANBERRA ACT 2600

Email: corporations.joint@aph.gov.au

Dear Dr Dermody,

CLERP (Audit Reform and Corporate Disclosure) Bill

Thank you for your email of 29 March 2004 and the attached proof copy of the *Hansard* transcript of evidence at the Committee's public hearing into the *CLERP 9 Bill* held on Thursday 18 March 2004.

Whilst I have no corrections to the transcript of the evidence that I gave at the hearing, I wish to clarify one aspect of my evidence, as after reading it, I am concerned that the members of the Committee could potentially misconstrue it.

On pages CFS 42-43 of the transcript a response that I gave to Senator Conroy reads as follows:

“**Mr Edge**—I agree wholeheartedly with the principle you have just outlined. The accounting standard setting regime globally is far stronger than the auditing standard setting regime. But what we are not doing is accepting or letting them take over our standard setting. All we are saying is that we will take the standards they set as a starting point and then we will increase the quality and rigour of them in Australia. Australian standards exceed the international standards. One would hope that in three to four years time there would have been more resources put into the international standard setting arena so we can be more consistent with the accounting framework. But we would not—and I would argue this quite strongly—take the international auditing standards, for exactly the reasons you have just given.”

Firstly, for the record, I would like to make it very clear that my comments in response to the series of propositions put to me by Senator Conroy were in no way intended to diminish the reputation or standing of the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) or the body of International Standards on Auditing (ISAs) issued by that board. In early 2002,

significant improvements were made by IFAC when it reconstituted what was then its International Auditing Practices Committee (IAPC), into what is now the IAASB, to strengthen the processes for establishing global auditing and assurance standards. It did so by increasing the size of the IAASB to 18 members (including 3 public members), increasing the financial and staff resources available to the IAASB, holding open public meetings and by actively promoting the benefits of international convergence to national auditing standard setters, such as the AuASB. Accordingly, I do not agree with Senator Conroy's assertion that the current IAASB is not properly constituted or that it has poor resourcing. Furthermore, late last year IFAC adopted additional initiatives to enhance the governance of the IAASB and its interface with key stakeholder bodies, such as for example, by establishing a Public Interest Oversight Board (PIOB).

My evidence to the Committee was from the viewpoint that whilst significant improvements occurred quite some time ago to the institutional arrangements for the setting of international accounting standards, it is only relatively recently that similar improvements have been made to bolster the international auditing standard setting process.

The second point of clarification that I would like to make, is that Auditing and Assurance Standards (AUSs) issued by the AuASB have been developed in accordance with the AuASB's Convergence Policy, whereby AUSs are in the main based on the ISAs issued by the IAASB. The AuASB established this policy because of the high quality standards being produced by the IAASB.

Notwithstanding the above, the AuASB still reserves the right to amend those standards before they are issued in Australia as AUSs, either to conform with Australian legal and regulatory requirements or to build-in additional requirements that are considered appropriate by the AuASB for Australia. For example, AUS 702 *The Audit Report on a General Purpose Financial Report*, includes Australian-specific material relevant to the *Corporations Act* reporting and auditing requirements, which is not included in the equivalent ISA. Consequently, from the perspective of the AuASB, we believe that the body of AUSs as currently issued are more appropriate to the Australian setting than the international body of ISAs, because the latter does not reflect such additional requirements.

I would be grateful if you would bring this letter to the attention of the Committee. If required, I would also be pleased to further elaborate on the above issues, prior to the Parliamentary Joint Committee concluding its inquiry on the CLERP 9 Bill.

Yours sincerely,

W.R. Edge
Chairman
Auditing & Assurance Standards Board