12 September 2019

Committee Secretary
Parliamentary Joint Committee on Corporations and Financial Services
PO Box 6100
Parliament House
Canberra ACT 2600

Via email: corporations.joint@aph.gov.au

Dear Secretary,

Inquiry into Regulation of Auditing in Australia

We welcome the opportunity to provide input to the Inquiry into Regulation of Auditing in Australia (the Inquiry) of the Parliamentary Joint Committee on Corporations and Financial Services (the Committee). Further to your request, we enclose some information which we trust will be useful for the Committee and others considering responding to the Inquiry including:

- Diagrammatic overview of Australia's financial reporting and auditing regulatory eco-system (see Appendix 1);
- Frequently asked questions on regulation of auditing in Australia and international comparisons (see Appendix 2); and
- Introduction to key audit policy, regulatory reform and other relevant developments taking place overseas (see Appendix 3).

We will submit our further views on the matters raised in the Terms of Reference by the due date.

There are around 4,000 Registered Company Auditors (RCAs) in Australia and auditing firms employ 40,000+ people in Australia. Australian auditors provide integrity in the Australian economy by auditing the financial statements of about 2,200 ASX listed companies, 6,000 large private companies, and many more charities, not-for-profits and other organisations each year (this document focuses on ASX listed companies' and other public interest entities' audits). The auditing profession is a training ground for many professionals who go on to serve in business, finance, government and other roles (major professional accounting bodies in Australia have more than 200,000 members).

Financial statement auditing and auditor independence in Australia has been the focus of significant reform and review over the past two decades and is consequently extensive and robust, comparing well internationally (see also page 11 regarding major reviews and reform in Australia).

Some countries have also undergone significant reform and proposals focused on auditing organisations' internal controls and covering risks beyond the financial statements. For example, the internal control reporting and auditing regime introduced in the United States following major corporate collapses in the early 2000s, and the current United Kingdom Independent Government Review of the Quality and Effectiveness of Audit which has considered whether auditors should have an expanded role in assessing the internal controls of an audited entity (see Appendix 3).

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Several countries and international organisations are currently undertaking policy, regulatory reform, and standard setting initiatives relevant to the Inquiry (see Appendix 3). Notably, the UK Government's wide-ranging Review of the Quality and Effectiveness of Audit is expected to deliver a report by the end of 2019 that will cover most of the matters raised in the Inquiry's terms of reference.

We look forward to engaging with the Committee in undertaking this important work and would be glad to follow up with any further information that you may find useful and/or meet to further discuss and explain any aspect. We are grateful to CPA Australia for their assistance and input in preparing this document. For more information about Chartered Accountants Australia and New Zealand see Appendix 4.

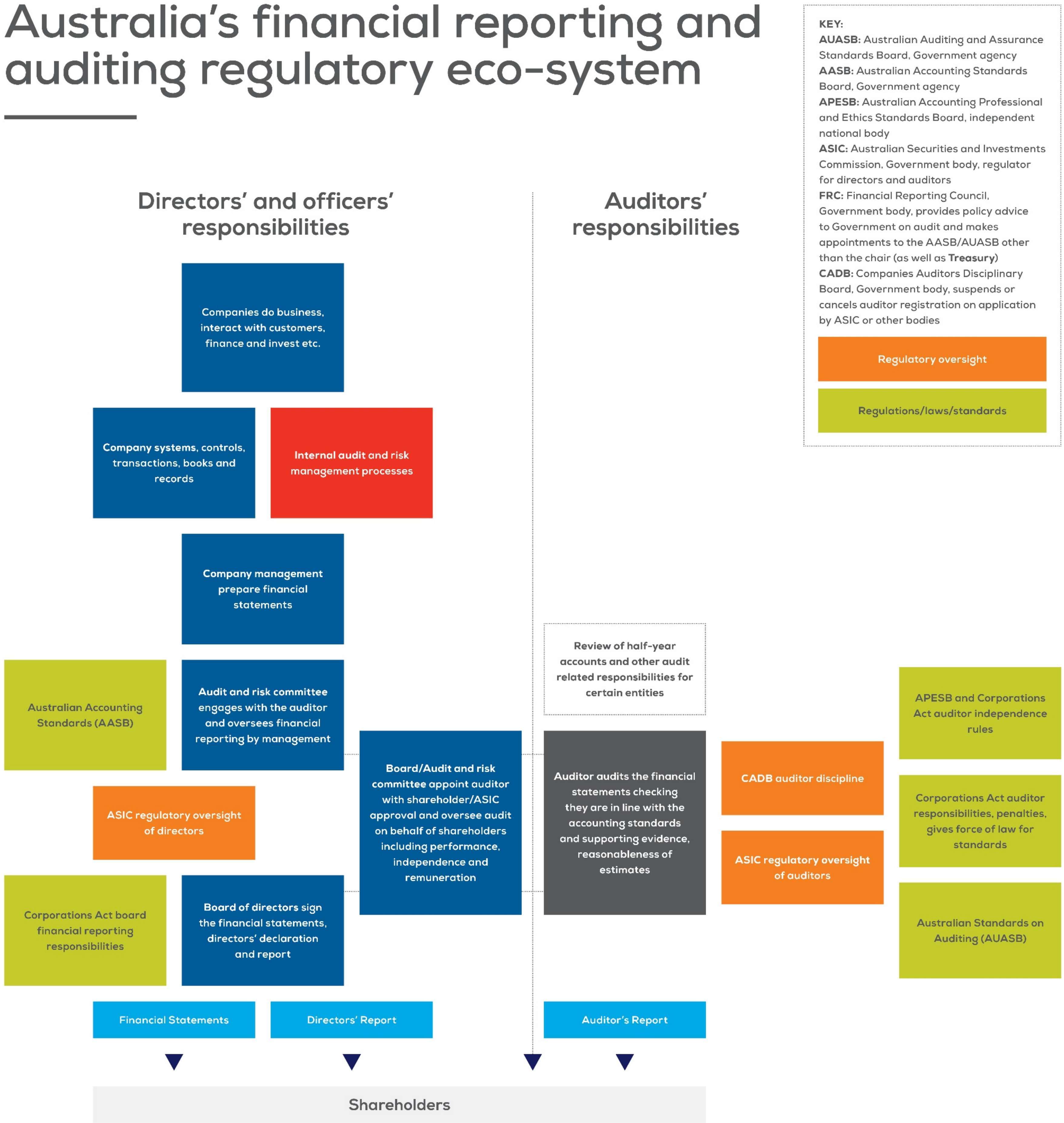
Yours faithfully

Simon Grant FCA
Group Executive, Advocacy and Professional Standing

Amir Ghandar CA
Leader, Reporting and Assurance

Appendix 1

Australia's financial reporting and auditing regulatory eco-system



What the outputs do and don't cover

Financial Statements (audited)	
Do provide info on:	**Don't provide info on:**
• Historical company financial performance • Financial position at a point in time once a year • Disclosures on other matters as required by accounting standards	• Controls and processes • Future prospects of the company • Matters that are not financially material for the company as a whole

Directors' report (not audited)	
Does provide info on:	**Doesn't provide info on:**
• Governance, dividends, director remuneration • Operations and financials • Independence of auditor • Whether directors believe company will be able to pay its debts when due • Future prospects and likely developments	• Not audited (but auditor checks for consistency with financials/their knowledge where relevant) • Controls and processes • Non-material risks and issues • Commercially sensitive

Auditor's Report	
Does provide opinion on:	**Doesn't provide opinion on:**
• If the financial statements are in line with the accounting standards • Key financial audit matters focused on by the auditor • If the auditors opinion is qualified in any way	• Controls or processes • Future prospects of the company • Whether non-material fraud or misconduct has taken place

NB: this diagram covers matters related to companies that are 'public interest entities', including listed companies – certain aspects differ for other types of entities

Appendix 2

Frequently asked questions on regulation of auditing in Australia and international comparisons

What is an audit?

To explain its financial operations, a company must prepare financial statements. There are legislation and standards[1] around how to prepare these, for example what to include, how items are valued, and what explanations to provide. An audit assesses whether the financial statements materially comply with these rules and give a true and fair view of the company's financial operations (see also 'what is materiality' below). While the word 'audit' may be used in plain language to refer to many types of reviews or checks, in the Australian Standards on Auditing (ASAs) the word very specifically refers to financial statement audits conducted under those extensive standards (see 'what standards apply...' below). Auditors also undertake certain other regulatory responsibilities in their role such as reviewing half year reports and assuring regulatory returns focused on specific sectors.

[1] For listed companies these rules are the Australian Accounting Standards (issued by the Australian Accounting Standards Board), which have force of law under the *Corporations Act 2001*, along with auditing standards (see also 'what standards apply…' below).

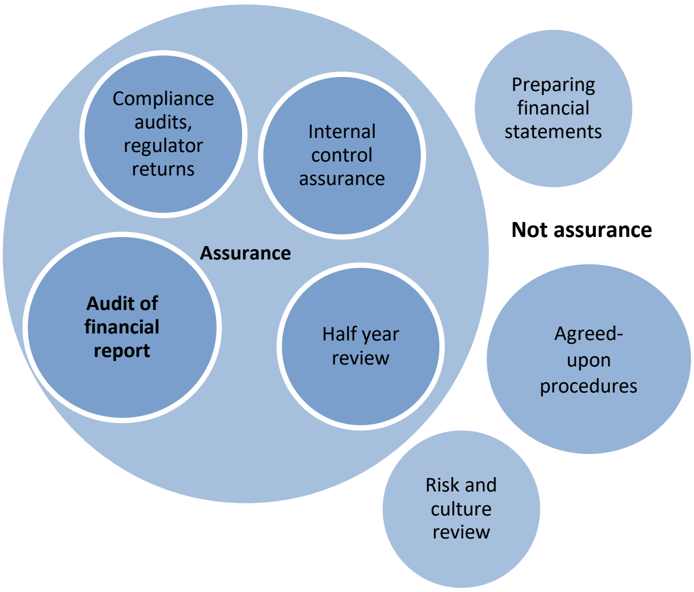
What is an assurance engagement?

Assurance engagements involve a practitioner (auditor or 'assurance practitioner') expressing a view designed to enhance trust and confidence that a given subject matter meets specified criteria.

This includes for example financial statement audits, or a report on an entity's adherence to certain rules. An extensive volume of standards and independence requirements apply to assurance engagements in Australia as outlined below.

However, due to the sampling approach an audit is based on, it does not 'verify' or give a 100% guarantee. A practitioner can either obtain 'reasonable assurance' or 'limited assurance'. Reasonable assurance involves a greater work effort and the practitioner expresses a positive view, i.e. I conclude subject matter X is, in all material respects, in line with requirement Y (audits are reasonable assurance engagements conducted under the legally binding auditing standards outlined below). Limited assurance involves less work, and only a negative form of conclusion, i.e. nothing has come to my attention that subject matter X is not in line, in all material respects, with requirement Y (see also 'what is materiality' below).

Some examples of assurance and non-assurance engagements



What standards apply to auditing and assurance in Australia?

The Australian Auditing and Assurance Standards Board (AUASB), an Australian government agency, issues standards for audits, reviews and other assurance engagements that have force of law under the *Corporations Act 2001*. The AUASB's suite of 42 standards - the ASAs - run to over 1,100 pages for financial statement audits. In addition to standards applicable to financial statement audits, there are 4 standards on review engagements and 9 standards that cover other assurance engagements, such as carbon emissions assurance, or compliance audits, totaling over 900 pages. Note there is a standard on quality control that requires auditors to have a quality system in place, which includes detailed requirements for the system, as well as internal and external monitoring requirements.

International comparison – auditing and assurance standards
Consistent with the directive set by the Financial Reporting Council (FRC), the standards issued by the AUASB are equivalent to the standards issued by the International Auditing and Assurance Standards Board (IAASB), which have been adopted in more than 120 countries. In some areas, the AUASB standards contain additional requirements to the IAASB standards.

What is auditor or assurance practitioner independence?

The Independence Standards require a practitioner to be independent when performing audits, reviews and other assurance engagements. Independence comprises "independence of mind" and "independence in appearance" both of which are required in order to allow the practitioner to act, and be seen to act, with integrity and exercise objectivity and professional skepticism.

What are the regulations around auditor/assurance practitioner independence?

Extensive regulation for auditor and assurance practitioner independence are contained in the *Code of Ethics for Professional Accountants* (the Code) issued by the Accounting Professional and Ethical Standards Board (APESB), the *Corporations Act 2001* and the APRA Prudential Standards. The Code contains more than 100 pages of provisions in relation to auditor independence covering a broad reaching conceptual approach to independence, in addition to specific provisions on key threats to independence and where these must be mitigated or avoided entirely.

The *Corporations Act 2001* and APRA Prudential Standards contain additional specific requirements such as stricter auditor rotation requirements, a conflict of interest test, and restrictions on relationships between audited organisations and the audit firm. In addition, it requires the auditor to give the directors of companies a written declaration that there have been no contraventions of these independence requirements, a copy of which must be included in the directors' report.

International comparison – independence rules

The Code is equivalent to the International *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants (IESBA) which have been adopted in more than 100 countries.

Some of Australia's auditor independence requirements exceed the international requirements, including:

- Auditor must give a written independence declaration to directors.
- Directors' report must include a statement whether they are satisfied the auditor independence requirements of the *Corporations Act 2001* have not been compromised.
- Two-year cooling-off period before audit partner can join audit client.
- Multiple former partners cannot join same audit client within 5 years of each other.
- Auditor must report to ASIC significant contraventions of the *Corporations Act 2001* by the company (and those where they believe that the matter will not be adequately dealt with by commenting on it in the auditor's report or bringing it to the attention of the directors), as well as conflict of interest situations.

What are some of the main issues related to auditor independence or other potential conflicts of interest, and how are they addressed in the current Australian auditor independence regulations?

Threat	How mitigated?
Providing non-audit services to audit clients, for instance consulting services	The Code includes a list of non-audit services that auditors are not allowed to provide to public interest entities they audit[2]. The rules essentially prohibit work that poses a threat to auditor independence, such as where the audit firm would assume a management responsibility, or work that has a material effect on the financial statements which are subject to audit, where the fees generated represent a large proportion of the revenue from an individual partner's clients, or the revenue of an individual office of the firm, and other specified situations. The *Corporations Act 2001* requires inclusion of the fees paid/payable to the auditor to be included in the directors' report, along with a statement whether they are satisfied the non-audit work is compatible with and does not compromise the independence requirements imposed by the Act. In addition, the *Corporations Act 2001* and the APRA Prudential Standards contain a legal test that prohibits a "conflict of interest situation" with an audit client. It is based on what a reasonable person would conclude. If an auditor becomes aware of a conflict of interest situation, they must notify ASIC.

[2] See here for a Summary of prohibited non-audit services for public interest entities

Threat	How mitigated?
Auditor becomes too familiar with audited organisation over time	The *Corporations Act 2001* imposes stricter audit partner rotation requirements of five years for listed companies, which can be extended to seven years with director approval. The Code prohibits an individual from being a key audit partner for more than seven years for public interest entities. After such time there is a cooling-off period of five, three or two years depending on the audit partner's role. The cooling-off period for engagement partners for listed companies recently increased from two to three years, and will then increase from three to five years from 31 December 2023.
Partners or staff move from audit firm to audited organisation	The *Corporations Act 2001* imposes a mandatory period of two years before a partner of an audit firm/director of an audit company who was on the audit team for the audit of the audited organisation may become an officer of the audited organisation. There is also a prohibition on more than one former partner of an audit firm/director of an audit company (within five years) from being a director or taking a senior management position within an audited organisation at any one time. The directors' report must also include the names of directors who were previously partners of the audit firm at any time the audit firm conducted an audit. These requirements go beyond the international standards. The Code deems independence to be compromised if a former member of the audit team joins the audit client as a director/officer or another position able to exert significant influence over the preparation of the financial statements which are subject to audit, where a significant connection remains between the firm and the individual.
Auditor is appointed and paid by the audited organisation	Company boards and audit committees serve as the representative for shareholders in the auditing process, independent from management, having responsibility for auditor appointment, setting of fees, and oversight of the audit engagement (see also below, 'how do boards oversee the audit?').
Auditor can be removed by audited organisation	The *Corporations Act 2001* provides for an auditor of a company to be removed from office by resolution of the company at a general meeting. Unlike the resignation of an auditor, ASIC's consent is not required except for certain types of entities, such as those with financial service licenses, registered schemes or compliance plan.

What does the audit regulatory regime mainly cover in Australia when it comes to listed companies and major financial institutions?

Annual financial statements are audited (reasonable assurance), and half-year financial statements are reviewed (limited assurance). Beyond financial statement auditing, some specific assurance engagements exist around risks and non-financial matters – for instance requirements of APRA/ASIC in the financial services sector and carbon emissions assurance for major emitters. In some cases risks are addressed by different forms of review but are not always subject to the assurance standards or the independence requirements of an audit or assurance engagement (refer also 'what is an assurance engagement' above).

International comparison – coverage of independent external assurance regime
Following the collapse of Enron, the US introduced a new requirement for company management and boards to report on their internal controls, and for auditors to provide assurance that the controls are operational and effective. The UK is also looking at this in the current Government Review on the Quality and Effectiveness of Audit (see Appendix 3).

Does Australia's audit regulatory regime target risks such as fraud and misconduct?

Fraud and misconduct that have a material impact on the audited organisations' financial statements are within the scope of what audits cover (see also 'what is materiality' below). An Australian audit does consider the risk of fraud and the auditor is required to adapt their audit process where the risk of fraud is high due to poor controls within the company. However, it is recognised in the auditing standards that it is not always possible to detect fraud, for example where there is collusion.

International comparison – responsibility to address fraud
Since the introduction of reforms in the early 2000s in the US, the onus has shifted to management, who are required to have a strong system of internal control including addressing the risk of fraud and auditors provide assurance those controls are operating effectively.

Since last year auditors, who are members of professional accounting bodies in Australia that have adopted the Code, have a robust framework around how to respond if they identify or suspect non-compliance with laws and regulations by persons within the entity being audited. Under the *Corporations Act 2001,* auditors are required to report to ASIC significant contraventions of the Act, and those they believe that the matter will not be adequately dealt with by commenting on it in the auditor's report or bringing it to the attention of the directors.

Do audits flag or prevent corporate collapses?

Auditors form a view on boards' and managements' assessment of whether their organisation can continue as a going concern for the 12 months following the date of the auditor's report. If there is material doubt surrounding the entity's ability to continue, this along with any mitigating factors is disclosed in the financial statements and the auditor will flag it in their report. The going concern concept is different to solvency/insolvency i.e. the company's ability to pay debts as and when they fall due – which is included in the directors' declaration in the financial report (note auditors' responsibility to report significant contraventions of the *Corporations Act 2001* outlined above includes trading while insolvent). As circumstances can change quickly in an organisation or the economy, company failure does not necessarily mean there has been an audit failure as the auditor makes an assessment at a particular point in time and cannot predict future events.

International comparison – flagging risk of corporate failure
The UK Government Review on the Quality and Effectiveness of Audit is looking at the potential for greater transparency regarding identified "events or conditions that may cast significant doubt on the entity's ability to continue as a going concern". Some commentators in the UK have suggested more extensive reporting by management and boards on key risks that could lead to corporate failure and how these are being mitigated, with the auditor checking for reasonableness and completeness of this information.

What does materiality mean?

Users of financial statements need to be able to rely on the accuracy of the information included to make their investment decisions. In an audit, an auditor obtains reasonable assurance about whether the financial report is free from “material” misstatement, which may arise due to fraud or error. Materiality is related to significance, and refers to information that if omitted or incorrect, would be significant enough to impact users’ decisions.

Auditors do not check every transaction as it is cost prohibitive and time intensive. Rather they perform sample testing of controls and transactions and they review assumptions around valuations. A common materiality level for a listed company is 5% of profit before tax. One way to think about materiality is that it means the auditor designs their testing to identify errors in the financial report that are material. For example, say the profit is $100 million, the auditor will design their audit to identify misstatements in the financial statement greater than $5 million (5% of $100 million).

The materiality level drives the scope of the audit work such as sample sizes, which divisions and operations to focus on and what an auditor would consider a misstatement in the financial report. Thus if an auditor finds aggregated errors greater than materiality either the company amends their results or the auditor would qualify their report.

What are the responsibilities of management and boards in financial reporting?

Whilst they can delegate day to day responsibility to management, boards are responsible for the oversight of the financial reporting process, including preparing the financial statements in accordance with the rules, and for the internal controls to prevent fraud or error. They are also responsible for assessing the entity’s ability to continue as a going concern. The CEO and CFO must give the board a written declaration in relation to whether a listed entity’s financial statements comply with accounting standards and give a true and fair view. The directors’ declaration in the financial report must include whether the financial statements comply with accounting standards and give a true and fair view. The board must also prepare a directors’ report that includes information such as the non-audit services provided by the auditor, the auditors’ independence declaration, and a remuneration report about key management personnel compensation.

International comparison – responsibilities of management and boards

In the US the financial report must include an Internal Control Report stating that management is responsible for an adequate internal control structure, and an assessment by management of the effectiveness of the control structure. Any shortcomings in these controls must also be reported. The financial report must be certified by the CEO and CFO and there are criminal penalties for certifying a misleading or fraudulent financial report.

How do boards support the audit process?

Boards are responsible for appointing auditors (with confirmation by shareholders at the annual general meeting) and overseeing financial statement audits. Whilst not all detailed in regulation, this usually includes running the tender process, setting the audit fee, making sure auditor independence rules are met, and engaging with the auditor around risks and financial reporting matters. In larger listed companies, a subcommittee of the board called an audit committee facilitates the boards’ work on these matters. Audit committees are only mandatory for entities in the S&P All Ordinaries Index (the 500 largest entities by market cap), and only those included in the S&P/ASX 300 Index must also comply with the best practice recommendations set out by the ASX in relation to the composition, operation and responsibility of the audit committee.

International comparison – audit committees

In the US the importance of independent audit committees to the audit process is recognised by explicitly mandating that the audit committee be “directly responsible for the appointment, compensation, and oversight of the work of any registered public accounting firm employed by that issuer (including resolution of disagreements between management and the auditor regarding financial reporting).”

How are investors involved in audits?

The company must hold an annual general meeting (AGM) which includes voting on auditor appointment where there is a change in auditor. The auditor is required to attend a listed company's AGM and the chairman must give the shareholders the opportunity to ask the auditor questions at the AGM, but investors are not directly involved in the audit itself. Under the current regime, company boards serve as the main representative for shareholders in the auditing process including auditor appointment, setting of fees, and oversight of the audit engagement.

What regulatory oversight exists around audit quality in Australia?

The Australian Securities and Investments Commission (ASIC) is responsible for oversight of audit firms that audit entities that are required to have an audit under the *Corporations Act 2001*, in addition to its wider role as corporate and capital markets regulator. ASIC performs file inspections at audit firms that audit listed entities and significant public interest entities. Refer to ASIC's website for further information about their oversight activities.

The FRC is responsible for overseeing the effectiveness of the financial reporting framework in Australia, including providing strategic advice in relation to the quality of audits conducted by Australian auditors, and advising the Minister on these and related matters to the extent that they affect the financial reporting framework in Australia. The FRC's website and its annual reports provide further information about audit quality oversight in Australia.

> **International comparison – regulatory oversight**
> In the US, the Public Company Accounting Oversight Board (PCAOB), an independent private-sector, non-profit corporation oversees professionals and firms who do audits of publicly traded companies. It also publishes the inspection reports of each individual audit firm inspected.
>
> ASIC is a member of the International Forum of Independent Audit Regulators (IFIAR), a group of 55 regulators globally, and indicates ASIC audit inspections findings are similar in nature to those occurring internationally.

ASIC may refer a disciplinary matter to the Company Auditors' Disciplinary Board (CADB), an independent statutory body with the primary role of serving as a disciplinary tribunal. Refer also to the CADB website and the FRC's Auditor Disciplinary Processes: Review report.

Chartered Accountants Australia and New Zealand also undertakes reviews of members in practice. The program monitors whether our members offering services to the public have quality control systems in place to ensure they comply with the Code of Ethics, professional standards, and legal and regulatory requirements. However, it does not seek to replicate the coverage of ASIC's inspections or specifically target audit files individually. Other major professional accounting bodies in Australia undertake similar programs.

How does auditor registration work?

Only RCAs can perform audits under the *Corporations Act 2001*, including listed companies. To become an RCA, individuals need to demonstrate to ASIC that they meet an extensive set of requirements, including; specified qualifications or equivalent qualifications and experience, 3,000 hours of company audit experience in the five years prior to application and 750 hours supervisory experience, or evidence of attaining skills contained in an ASIC-approved competency standard, and be capable, and be considered a fit and proper person among other requirements. There are also requirements that must be met in order to maintain registration. See also ASIC's RG 180 *Auditor Registration*.

What transparency reporting do audit firms do?

Audit firms that audit 10 or more significant entities such as listed companies, listed registered schemes, authorised deposit-taking institutions and insurance companies are required by the *Corporations Act 2001* to publish an annual Transparency Report. The report discloses aspects such as the firms' independence practices and revenue relating to audits of financial statements and other services provided by the audit firm to its audit clients, and other information about the quality management system required by the legally binding Auditing Standard ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, Other Assurance Engagements and Related Services Engagements*.

What reviews and reform of auditing have taken place in Australia?

Below is a timeline of significant legislative changes and reviews which have had an impact on the Australian auditing sector the past 15 years.

- 2004: The *Corporate Law Economic Reform Program (Audit Reform & Corporate Disclosure) Act 2004*, commonly called CLERP 9, modified the *Corporations Act 2001* to include new provisions pertaining to auditor independence, some of which are unique to Australia and stricter than international requirements. It also mandated the use of International Financial Reporting Standards (IFRS), gave auditing standards, accounting standards and independence requirements in the ethical standards force of law, and introduced independent audit oversight by ASIC.
- 2006: The Accounting Professional and Ethical Standards Board (APESB) was established by the Institute of Chartered Accountants in Australia – now Chartered Accountants Australia and New Zealand, and CPA Australia. The Institute of Public Accountants joined in late 2006. It is an independent national standard setting body that develops and issues professional and ethical standards, including on auditor independence, which members of the three professional accounting bodies must comply with.
- 2010: The Treasury conducted *Audit Quality in Australia: A Strategic Review*, concluding "Treasury believes that Australia's audit regulation framework is robust and stable and, as a key driver of audit quality, can be considered to be in line with international best practice".
- 2012: The *Corporations Legislation Amendment (Audit Enhancement) Act 2012* made further reforms to the *Corporations Act 2001* to require audit firm transparency reporting, enable ASIC to publish audit deficiency reports, and amend the role of the FRC regarding audit quality and auditor independence.
- Ongoing reform of auditing and assurance standards, accounting standards and ethical standards (including on auditor independence) by the Australian Government and independent standard setters[3].

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[3] Australian standard setters - Auditing and Assurance Standards Board (AUASB), Australian Accounting Standards Board (AASB), Accounting Professional and Ethical Standards Board (APESB). International standard setters - International Auditing and Assurance Standards Board (IAASB), International Accounting Standards Board (IASB), International Ethics Standards Board for Accountants (IESBA)

Appendix 3

Introduction to key audit policy, regulatory reform and other relevant developments taking place overseas

Review	Key recommendations	Current status
UK: Independent review into the quality and effectiveness of audit, led by Sir Donald Brydon (Brydon Review), focuses on the purpose and scope of audits and whether they meet user needs.	Note several reviews in the UK outlined below commenced following major corporate collapses in 2018. Terms for the Brydon Review include to examine the existing purpose, scope and quality of statutory audit in the UK, to determine: a) the needs and expectations of users of financial and non-financial corporate reporting; b) how far the audit process and product may need to improve and evolve to meet the needs of users and to serve the wider public interest; c) what specific changes to the statutory audit model and wider regulatory framework for audit may be needed to deliver this, including any changes to company law; d) whether other forms of business assurance should be developed or enhanced to enable shareholders and other stakeholders to assess better the future financial prospects and sustainability of companies.	Review in Progress, final or interim report expected by end of 2019.
UK: FRC post-implementation review of ethical and auditing standards	Moving from a list of prohibited non-audit services that an audit firm may provide to its public interest entity (PIE) audit clients to a list of permitted services, all of which are 'closely related' to an audit or required by law and/or regulation – all other services would be banned for audit clients.	Currently in consultation.

Review	Key recommendations	Current status
UK: Competitions and Market Authority (CMA) market study into statutory audit services	Measures to formalise an 'operational' split of audit and non-audit services within the 'big 4'. Note the CMA considered 'full separation' or a ban on non-audit services but concluded based on its market study that this would have a detrimental impact on audit quality, efficiency, standing of the UK profession and audit firms. Enhanced regulation of UK companies' audit committees, mandatory joint audits for FTSE 350 companies are also recommended[4]. The CMA stated that issues of scope and purpose of the audit must be addressed to deal with the underlying issues that led to its market study, referring to the UK Government review into the quality and effectiveness of audit (see above).	UK Government consulting on the issues raised in the report[5].
UK: Independent Review of the Financial Reporting Council (FRC), led by Sir John Kingman, looked at the role and function of the UK's audit regulator, its impact, effectiveness and powers.	The FRC be replaced with an independent statutory regulator; the Audit, Reporting and Governance Authority (ARGA)[6].	The UK Government has conducted an initial consultation on the recommendations and is currently analysing feedback[7].
UK: Business, Energy and Industrial Strategy Committee Future of Audit Inquiry	It encourages the Government to introduce the necessary legislation in the next session of Parliament to establish ARGA (see above). It also recommends a strengthened framework around internal controls, structural split of audit and non-audit services within the big 4 (note this recommendation preceded the CMA's final report, see above), segmented market cap, joint audits for FTSE 350 companies, and increased regulatory oversight of audit committees. It supports widening the scope of audit to report on more issues affecting stakeholders, with reference to UK Government review into the quality and effectiveness of audit (see above).	The Government has responded[8]. In summary, its response to many of the recommendations is that it is currently, or will shortly be, consulting on the issues raised.

[4] https://www.gov.uk/government/news/cma-recommends-shake-up-of-uk-audit-market
[5] https://www.gov.uk/government/consultations/statutory-audit-services-initial-consultation-on-the-competition-and-markets-authority-recommendations
[6] https://www.gov.uk/government/news/independent-review-of-the-financial-reporting-council-frc-launches-report
[7] https://www.gov.uk/government/consultations/independent-review-of-the-financial-reporting-council-initial-consultation-on-recommendations
[8] https://www.parliament.uk/business/committees/committees-a-z/commons-select/business-energy-industrial-strategy/news-parliament-2017/audit-govt-response-report-published-17-19/

Review	Key recommendations	Current status
US: Sarbanes-Oxley	Auditing regulation in the US has been largely stable since the introduction of the Sarbanes-Oxley Act following the major corporate collapses of the early 2000s. This law introduced management and board accountability for company internal controls, a role for auditors in providing assurance that the controls are operating effectively, in addition to the creation of a strongly resourced, dedicated regulatory body to oversee public company audits (i.e. the PCAOB as outlined above in Appendix 2).	Stable
EU: Audit Directive/Regulation	The EU undertook a major review of audit regulation post the financial crisis of 2008, landing on a set of changes including audit committee requirements, mandatory audit firm rotation, non-audit services restrictions and other changes. The Audit Directive and Regulation containing these changes (2014) is still being implemented and some concerns have been expressed regarding divergence in the approach taken by EU Member States, as well as the impacts of some aspects on concentration and effectiveness of the audit market (see also below, mandatory firm rotation).	Still under implementation, review to take place in 2020
Multiple countries: various stages of review on auditing	Several other jurisdictions have reviewed or are currently reviewing audit regulation and standards. The areas of focus are not consistent internationally, for example: • In South Africa, powers of the regulator (the Independent Regulatory Board for Auditors) and rotation (see also below). • In Japan, audit firm and related governance arrangements. • In the Netherlands, the effectiveness of the audit market. • In India, auditor oversight and appointments.	In progress
Multiple countries: mandatory firm rotation rejected, introduced or introduced and removed	Multiple countries have over the past decade either introduced or removed mandatory audit firm rotation (MAFR) requirements—a policy requiring companies to switch audit firms periodically. Within the last 2 years, South Africa introduced MAFR, and Singapore announced its intention to discontinue. South Korea, Argentina, and Brazil have implemented and discontinued the policy for certain sectors; the EU is now implementing with numerous variations across Member States—some of which, such as Spain and Italy, had previously implemented and discontinued the policy. In 2013 the US House of Representatives voted 321-62 to prohibit the Public Company Accounting Oversight Board from requiring mandatory audit firm rotation.	In progress

Review	Key recommendations	Current status
Monitoring Group: International Standard Setting Governance	The Monitoring Group, a group of international financial institutions and regulatory bodies that monitor international auditing standard setting is carrying out consultation and review of the governance arrangements involved.	Consultation undertaken in 2017-2018, next steps not yet indicated.
International Ethics Standards Board for Accountants (IESBA): Non-Assurance Services Project	Revising and strengthening non-assurance (non-audit) services provisions in the Code, including the introduction of a requirement for audit committee pre-approval of non-audit services, to increase confidence in the independence of audit firms. Proposed changes would introduce stricter requirements than in most jurisdictions currently, including the UK.	Project currently in progress, and was informed by roundtables around the world including regulators and investors
IESBA: Long Association Project	Auditor rotation requirements strengthened with longer cooling-off periods to increase confidence in the independence of audit firms. The cooling off periods are in line with the UK and US requirements, and the PIE rotation requirements are stricter than the US.	Adopted in Australia from 2019.
IESBA: Non-Compliance with Laws and Regulations (NOCLAR) Project	Introduced a framework for all professional accountants, including auditors, for responding to suspected NOCLAR, including obligations around reporting and escalating issues.	Adopted in Australia from 2018.
International Auditing and Assurance Standards Board (IAASB): Audit Quality Management Project	Substantial revision and strengthening of audit firm quality management requirements.	Project currently in progress, initial consultation during 2019.
IAASB: Less Complex Entities Project	Discussion paper on applying auditing standards in less complex entities including SMEs.	Project currently in progress, initial consultation during 2019.

Appendix 4

About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand is a professional body comprised of over 120,000 diverse, talented and financially astute members who utilise their skills every day to make a difference for businesses the world over.

Members are known for their professional integrity, principled judgment, financial discipline and a forward-looking approach to business which contributes to the prosperity of our nations.

We focus on the education and lifelong learning of our members, and engage in advocacy and thought leadership in areas of public interest that impact the economy and domestic and international markets.

We are a member of the International Federation of Accountants and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.