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**p.**

14 February 2020

Committee Secretary  
Parliamentary Joint Committee on Corporations and Financial Services  
Department of the Senate  
Parliament House  
CANBERRA ACT 2600

via email:

Dear Committee Members

## **RESPONSE TO QUESTIONS ON NOTICE – REGULATION OF AUDITING IN AUSTRALIA**

Thank you for the opportunity to present to the Parliamentary Joint Committee last Friday 7<sup>th</sup> February 2020. We enclose our responses to the questions on notice as requested.

We want to assist in ensuring audits are of the highest quality and can deliver the best outcomes for businesses.

We are passionate about audit, have a strong belief that audits should always strive to deliver value to our clients and their stakeholders, their families, employees and suppliers. We are committed to ensuring we produce a quality audit each and every time.

We are also dedicated to continuously seeking ways of improving and evolving audits to deliver best practice with our client's and their stakeholders' best interests at heart.

A Pitcher Partners audit is as stringent and robust as legislators and professional standard setters require. Quality is not measured by the size of the business, nor the audit firm delivering the service. Quality is about rigor behind the processes and methodologies, the oversight, the accountability, and the skills and experience of the people delivering them.

This is something that is at the forefront of our and our clients' minds. As such we have always invested heavily in both our systems and our people to ensure that we deliver the quality that our clients and their stakeholders expect.

The systems of quality control at Pitcher Partners are designed to provide reasonable assurance that:

- the firm and its personnel comply with Professional Standards and applicable legal and regulatory requirements; and
- reports issued by each firm or engagement partners are appropriate in the circumstances.

**Adelaide Brisbane Melbourne Newcastle Perth Sydney**

**Pitcher Partners is an association of independent firms.**

An independent Victorian Partnership ABN 27 975 255 196. Liability limited by a scheme approved under Professional Standards Legislation.

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The results of our internal monitoring programs and improvement areas identified combined with feedback received from regulatory inspections provide us with the confidence that our systems of quality control are operating effectively.

We do believe that an expectation gap has developed in that a business which is audited and receives an unmodified opinion is immune from failing. Pitcher Partners does not accept this proposition. Businesses fail for a variety of reasons irrespective of whether an audit was executed well.

However, in our experience companies that are audited benefit from better governance that implements better practices which enhances the quality of their decision making that generates better performance. Pitcher Partners is passionate about the success of the middle market. And we strongly believe that quality audits are essential to the continued growth and prosperity of a vibrant middle market.

#### Questions on notice:

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*Senator Whish-Wilson*

*Q: I have two other lines of questioning, if I have the time, Chair. We've just received data back from the big four as to their breakdown, essentially, of revenue or fee services between audit services and non-audit services. Are you able to give us an idea of the evolution of your businesses in that respect as well? You can take it on notice or, if you can give us a rough breakdown now, that would be appreciated.*

Response:

A rough breakdown was provided, but for completeness we also include the 2019 Transparency Report.

Attached: 2019 Transparency Report

<https://www.pitcher.com.au/sites/default/files/downloads/Transparency%20Report%202019.pdf>

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*Senator O'Neill*

***Q. Could I ask each of you to take on notice to give me a sense of the scale of how this is operating. How many people have you referred to the relevant authority, whether it is CPA, CAANZ or ASIC, for a breach of ethical standards for each of the years over the last five to 10 years, if you need to go back that far. And what were the outcomes that were achieved for the sector? I'm struggling to see any major public reveal of action or of discipline in response to much-proclaimed standards. Standards are only powerful if they're actually enforced. There was some hesitancy – that's my characterisation of the evidence this morning – about whose responsibility it is to take the disciplinary action. I'd invite you to put on the record: if there's a referral up to ASIC, is ASIC sufficiently feared in the most appropriate way by the sector in terms of discipline?***

Response:

Pitcher Partners Melbourne have not referred anyone to the professional bodies for a breach of ethical standards in the last 5 to 10 years.

Remainder is not on notice. No response from PP.

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Chair

*Q. Before we dismiss these witnesses, I want to place on the record my own question on notice. One of the themes of the evidence, particularly from academic witnesses, is that transparency could be enhanced by digital financial reporting. which is currently optional. The committee might consider recommending that it be compulsory. I would be interested to know whether any of your firms have any concerns or objections to that and whether you would support that proposal. There is no need to answer now; I'm happy for you to take that on notice. Thank you very much for your attendance and your evidence here today.*

Response:

We have no concerns with respect to digital financial reporting and would recommend the digitalisation of financial reports is an important progressive step which needs to be made. However, we note, the impact of mandatory digital reporting on our clients would be the costs of installing an appropriate reporting package/tool to produce such documents.

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Senator O'Neill

*Q. Chair, can I indicate that, while I'm really grateful for the submissions and the testimony we received today, it would be very helpful for the committee, on reflection, if these entities provided us with what recommendations they think would be positive across the entire sector. If you could take that on notice, I'd appreciate that. Thank you.*

Response:

- Allowing companies to select a period end appropriate to their business, rather than clustering the year ends around June and December. This would likely facilitate, a smoother delivery timeline for audits, resulting in lower peak periods, and while not certain this may make the profession more attractive to a wider and more diverse workforce.
- Reducing the barriers to adopting new technologies for delivering higher quality more efficient audits. For example, an advancement in the auditing standards to allow for the use of data analysis and interrogation as a substantive procedure.
- Clarity around allowable non-audit services.
- Multi-disciplinary firms
  - The middle market does not request that we solely focus on an audit opinion that a financial report complies with the required standards - as they recognise the opportunity to improve their businesses through the parallel benefits that can be obtained from a firmwide multi-disciplinary relationship.
  - The audit for a middle market business provides opportunity for an owner-manager to receive an independent objective evaluation - an external "health check" - on how they can improve the performance of the business that run and own. As middle market businesses rarely employ internal experts, the external audit is often a cost-effective trigger for identifying where improvements can be made and additional expert advice might be needed.

Please contact either myself or Tim Nesbitt, Director - Audit & Accounting Technical ( ), in relation to any of the matters outlined in this response.

or

Yours sincerely,

K L BYRNE  
Partner