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October 1<sup>st</sup>, 2019.

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

Dear Sir / Madam,

Thank you for the opportunity to make a submission.

**The relationship between auditing and consulting services and potential conflicts of interests.**

Ever since the days of the HIH Insurance collapse in Australia auditor independence concerns have been shared or expressed by many related to the joint provision of audit and consulting services (NAS). An important consideration is whether the current framework for managing NAS conflicts is enough to focus auditor's incentives on high quality audits. One way to address the reality and perception of NAS-related conflicts would be to structurally separate audit and NAS. Depending on the specific implementation, this might return reporting entities to greater choice among the Big Four or create opportunities for smaller audit practitioners to increase their client base. However, there would also likely be substantial costs and disruption to the auditing firms, according to the 2018 CMA report in the UK.

**Audit quality, including valuations of intangible assets.**

In relation to auditor reported Key Audit Matters (KAMs) disclosed in audit reports in both years 2017 and 2018 (in Australia), 'Asset valuations' and 'Goodwill and Intangibles impairments and/or valuations' were two areas of key risks identified by most Big Four Australia auditors. Amongst the Big Four auditors' changes in audit procedures between these two years mainly were identified in these two areas of key risks (in research I have been completing). A new Australian research report due to be released in 2020 will indicate that the Big Four directed significant time and effort in relation to identifying key risks in these two areas and that these risk areas relate more to the larger listed ASX companies (that are mainly audited by the Big Four). These disclosures are adding value to audits.

**Matters arising from Australian and international reviews of auditing.**

The CMA report in the UK (2018) recommended an independent body be set up to allocate clients to auditors. This is one way to re-orient the incentives on auditors to focus on providing high quality audit based on professional scepticism and challenge would be to remove the responsibility for the audit selection processes, and for audit engagement monitoring, from companies altogether (CMA 2018). These responsibilities could instead be undertaken by this independent body. The CMA report (2018) suggests that this would break the link between company management and audit firm appointment and

reappointment – creating an environment where audit firms are better incentivised to provide quality audits. I would like to see Australia consider that UK recommendation from the 2018 report.

### **The adequacy and performance of regulatory, standards, disciplinary and other bodies.**

I have concern that current auditing standards are not sufficiently up to speed with technological changes in Auditing practices. My latest research highlights the need for regulators and standard setters to keep on track with the fast-paced IT, automation evolution in the auditing field. Standards are still referring to sampling techniques and methodologies. The automation revolution is allowing auditors to test many more transactions than in the past, making sampling less relevant, and allowing for greater levels of assurance. Auditing standards need to be updated related to automation and its impact on audit practices.

### **Other related matters.**

One area perhaps requiring more attention is what the auditing standards require from auditors in relation to ‘going concern’ and/or ‘material uncertainties’ in the emphasis of matter paragraph of the auditors’ report. My research has indicated that auditors should be required to communicate on those matters in a lot more detail when there was genuine uncertainty, than less detail which currently appears to be the case.

Reference: Competition & Market Authority – CMA (2018). Statutory audit services market study, National Archives, London.