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20 March 2013

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

Via email:

Dear Dr Grant

Statutory Oversight of the Australian Securities and Investments Commission

CPA Australia welcomes the opportunity to provide input to the Parliamentary Joint Committee on Corporations and Financial Services (the Committee) in Statutory Oversight of the Australian Securities and Investments Commission (ASIC), for consideration at the public hearing to be held on 21 March 2013.

CPA Australia, one of the world's largest accounting bodies representing the diverse interests of more than 144,000 members, considers audit quality of paramount importance and is absolutely committed to constant improvement. CPA Australia has implemented a comprehensive set of measures to promote audit quality in Australia and globally including:

- An extensive quality review program (three-yearly reviews for all company auditor members in public practice).
- Advanced auditing and assurance education and training for newly qualifying and experienced members.
- Ongoing professional development requirements (120 hours in each three year period, at least 50% audit related for company auditors).
- Comprehensive auditing and assurance resources including guidance documents, fact sheets, audit manual and competency standards.
- Requirement for all members to adhere to internationally equivalent auditing, assurance and professional ethical standards.
- Contributing to the development of high quality laws, regulation and standards in Australia and globally.
- Promoting and clarifying focus areas identified by ASIC's audit inspection program, and incorporating the focus areas in training, professional education, quality reviews and other resources.
- Championing improvement and extension of auditing and assurance methodology globally through initiating and funding research.
- Promoting better understanding in the community of the role of auditing and assurance and general financial literacy through publications and wide public communication.

However, the accounting and audit profession in Australia is operating under an unhelpful dynamic. ASIC's audit inspection program should be an important part of Australia's audit regulatory framework. However in its implementation, ASIC has persistently demonstrated a propensity to make statements in a range of public forums that are sensationalised and driven by a media grab mentality rather than seeking constructive outcomes and working collaboratively with the profession.

The audit inspection program is not a statistically representative sample or intended to measure audit quality. Furthermore, the basis of reporting, sample selection and inspection work may vary from one period to the next. The program's benefit is in identifying specific issues and focus areas for auditors that are widely relevant for audits, and in promoting a productive discourse to facilitate continuous improvement.

ASIC's communication on its most recent audit inspection program report features emotive language and percentages which it implies are a measure of audit quality. This has the impact of undermining the program's objective, letting down Australian investors and others for whom the effective operation of our regulatory framework is of critical importance. And this is at a time when the community is looking to ASIC to build trust and confidence in Australia's capital markets.

ASIC also demonstrates an unhelpful fixation with various policy ideas emanating from the United States of America and Europe. It has employed the same media grab mentality in its promotion of these policies as 'off-the-shelf imports' to be plugged into Australia's auditing regime, despite our circumstances and post global financial crisis challenges being profoundly different to those in the US and Europe.

The interests of investors and the general community would be better served by ASIC adopting a strategy of genuine engagement and dialogue with the profession and other stakeholders in Australia, and working collaboratively to find solutions that are relevant and workable in the Australian context.

The profession's efforts to work constructively with ASIC have been so frustrated that I have taken the extraordinary step of writing publicly on the matter. For the benefit of the Committee, I append an opinion piece published in the *Australian Financial Review* on 8 November 2012, entitled *Don't regulate for non-existent issues*.

The profession and stakeholders rightly expect genuine dialogue and real collaboration. The profession is absolutely committed to constant improvement and I would be pleased to elaborate on many initiatives that CPA Australia and the profession have committed to in the objective of providing better information for investors and other stakeholders.

CPA Australia takes its role in education, addressing expectation gaps and facilitating a productive discourse based on Australian realities very seriously. To this end, I append two of CPA Australia's recent publications for the benefit of the Committee:

- A guide to understanding auditing and assurance: listed companies
- Competition in the ASX listed company audit market: preliminary results

I take this opportunity to acknowledge and thank you for your helpful support in outlining the Committee's current areas of interest, and facilitating our input for the Committee's consideration.

Yours sincerely

Alex Malley FCPA
Chief Executive

FINANCIAL REVIEW

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The Australian Financial Review

Don't regulate for non-existent issues

When I was in kindergarten in the 1960s, if one child misbehaved and did not own up to their behaviour, the whole class would be kept in as punishment; inevitably, a new rule would be introduced as a result of the errant actions of one individual. Little did I know that this would be my introduction to regulation in today's financial markets.

While much has been said of the need for Australia to increase its productivity and international competitiveness, not enough has been said of how the regulatory framework within which Australian business operates will be crucial in working towards this aim.

In a nation where the costs of doing business are becoming a distinct competitive disadvantage, Australia must do more to build and maintain competitive advantages, especially in the area within direct control of the government: regulation.

Instead, in our apparent quest to be internationalised in our regulation, we find ourselves influenced by economies with fractured governance systems; namely, the United States and UK. After the global financial crisis, it is not surprising that such economies are attempting to overcorrect with regulation, but this should be their problem to deal with – not ours.

Of course, today's global market and the prevalence of multinational companies and activities means that no issue can occur in isolation; as we have seen with the sub-prime mortgage disaster in the US, for example, its effects are hardly endemic in the US. However, if Australia follows blindly the regulatory examples of Europe and the US and ignores the strengths and achievements being of our shores we risk losing any competitive advantage we may have.

Take one of the proposed reforms from the financial markets regulator, the Australian Securities and Investments Commission: a new national exam for all financial planners (to be regulated by another body). This proposal seems to be based on requirements in the US financial planning industry, but considering it was this industry that created some of the most toxic products that contributed to the sub-prime mortgage crisis, this is hardly a model to follow. Additional regulation that arguably adds no benefit and which results in higher transaction costs for business is hardly a competitive business advantage for Australia.

The proposal to regulate small business credit advice is another example. It seems Treasury is focused on regulating such advice despite a lack of debate on any evidence supporting the need for such regulation, and the potential negative consequences on the cost and availability of credit to small business. This is consistent with a trend towards regulate first, ask questions later. The mindset of our policymakers must change if the government is serious about reducing red tape.

Take the post-GFC European Commission green paper on audit (and the ensuing proposals). The paper included various recommendations, such as forced audit firm rotation (whereby audit firms would have a limited tenure with companies) and audit-only firms (where major audit firms would be restricted to providing audit services only).

While the aim is to increase audit quality and independence, the auditor's role is to provide an opinion on the presentation of financials, and this opinion on its own won't warn of a collapse, let alone a financial crisis. Even though Australia's Treasury paper on audit quality in 2010 found no systemic issues, there are already signs there will be the inevitable pressure to conform to the legislative developments of the Northern Hemisphere – whatever these may be. This is hardly the panacea we need for a problem we don't have.

Of course, there will always be an issue that demands a cross-border approach and that is when we should consider what works for the Australian context and attempt to influence international developments. The latest focus on high frequency trading, and the potential risk it creates for capital markets, is one example where an international contemporaneous solution may be sought.

Whether in kindergarten, or in today's financial markets, creating a new rule every time someone misbehaves, particularly when the misbehaviour is a consequence of non-compliance with existing rules, is unnecessary and burdens the rest. Australia's regulators need to ensure the business environment is not flooded with unnecessary regulation as part of the presumption that all risk can be mitigated. Given Australia's challenges with productivity and competitiveness, it is critical that our governments work towards a balanced regulatory framework before Australia is left behind, resulting not in a two-speed economy, but in a no-speed economy.

Alex Malley is chief executive of CPA Australia.

A guide to understanding auditing and assurance:

Listed companies

February 2013

CPA AUSTRALIA

CPA Australia Ltd ('CPA Australia') is one of the world's largest accounting bodies representing more than 139,000 members of the financial, accounting and business profession in 114 countries.

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Foreword

Auditing and assurance play an essential role in the effective operation of our capital markets and the economy at large, providing confidence to current and prospective shareholders about the information disclosed by companies.

A guide to understanding auditing and assurance: Listed companies explains the value and purpose of auditing and assurance in plain language. This should assist shareholders who are not experts in auditing and assurance to better understand the messages from their company's auditor, and make use of this information in their decision making.

The Guide is an initiative of the External Reporting Centre of Excellence of CPA Australia and I congratulate them on their contribution to a CPA Australia publication that has an important role to play in the promotion of improved financial literacy.

Alex Malley FCPA
Chief Executive Officer
CPA Australia Ltd

A guide to understanding auditing and assurance: Listed companies

Why are audits and reviews required?

Shareholders are often quite separate from those managing and governing the companies they own.[1] They need a reliable source of financial information on which to assess the company, and the performance of management. The same can be said for other stakeholders of companies, such as creditors, lenders, employees, analysts, prospective shareholders, governments and communities. Audits and reviews enhance the credibility of the information contained within the **financial statements**, so that shareholders and other stakeholders can make assessments and decisions with confidence and on a consistent basis.

What does assurance mean?

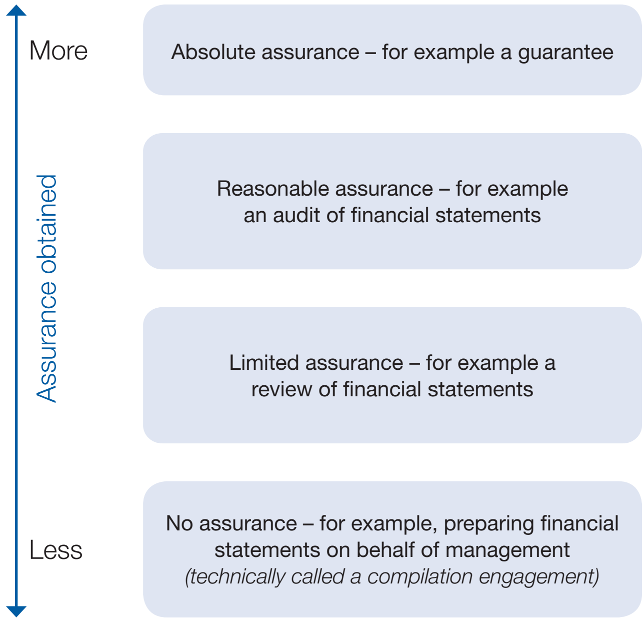
The term **assurance** refers to the expression of a conclusion that is intended to increase the confidence that users can place in a given subject matter or information. For example, an **auditor's report** is a conclusion that increases the confidence that users can place in a company's financial statements.

There are different levels of assurance, which depend on the type of work that the **assurance practitioner** performs, and these different levels also lead to different types of conclusions.

Type of assurance	For example	Nature of key work performed	Example form of conclusion
Reasonable Assurance	An audit of financial statements	Detailed testing, evidence gathering and substantiation to support the conclusion.	"We believe the financial statements *present* a true and fair view".
Limited Assurance	A review of financial statements	Primarily enquiries and analysis, less detailed procedures.	"We have *not* become aware of any matter to cause us to believe the financial statements *do not* present a true and fair view".
No Assurance	Preparing financial statements (compilation)	Preparation of the financial statements	No conclusion provided

1 This guide refers to audits and reviews of listed company financial statements. The concepts of audit and review are also applicable to other types of entity such as groups of companies, trusts and partnerships.

The following diagram illustrates different levels of assurance, in some of the different activities performed by accountants:



What is an audit of financial statements?

An audit of financial statements is a **reasonable assurance** engagement where the auditor provides an opinion about whether the financial statements present a **true and fair** view, and are in accordance with **accounting standards** *(and legislation where appropriate)*.

Australian listed company full-year financial statements are required by law to be audited. Many other types of entities are also required to have their financial statements audited, for example non-listed companies over a certain size threshold, some charities and not-for-profit entities.

While the reasonable assurance obtained in an audit is a high level of assurance, it is not absolute assurance (a certification that the financial statements are completely correct). Obtaining absolute assurance is not possible in financial statement audits for a number of reasons, including:

- It would be impractical for the auditor to test and audit every transaction
- Financial statements involve judgements and estimates which often cannot be determined exactly, and may be contingent on future events

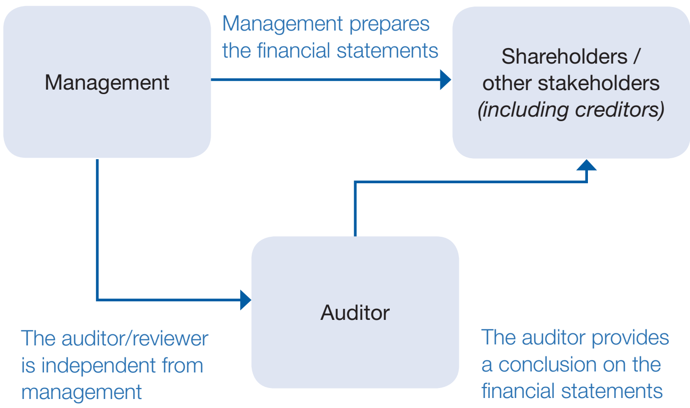
What is a review of financial statements?

A review of financial statements is a **limited assurance** engagement where the reviewer provides a conclusion to the users of the financial statements as to whether they present a true and fair view, and are in accordance with accounting standards.

Australian listed company half-year reports are reviewed by the same auditor that will audit the financial statements at the end of the year.

Relationships in financial reporting

The following diagram illustrates the relationship between shareholders and other stakeholders, management[2] and the auditor or reviewer.



In listed companies a sub-committee of the board of directors called the audit committee usually arranges the appointment of the auditor. The audit committee typically meets with the auditor throughout the year to discuss details such as scheduling, risks, financial reporting issues, the auditors findings and other matters relevant to the audit and financial statements. At the conclusion of the audit, the auditor often provides a more detailed, in-depth confidential report to the audit committee.

2 Unless otherwise specified, the term "management" throughout this guide refers to those charged with the governance of companies including directors and top level executives.

In Australia, auditors attend a listed company's Annual General Meeting and are available to answer questions from interested parties that are entitled to participate in the meeting, such as shareholders. This is a useful opportunity to clarify specific aspects of the audit.

The auditor's report

The auditor's report contains the auditor's opinion on the financial statements, in addition to a range of other information. Appendix 2 contains an illustrative example of an unmodified auditor's report with explanation, and Appendix 3 contains an example of an unmodified **review report** with explanation. An unmodified auditor's report effectively states the auditor believes the financial statements present a true and fair view, and are in accordance with accounting standards and relevant legislation. This is sometimes also called an "unqualified" or a "clean" audit opinion. Unmodified auditor's reports are the most common type you are likely to come across. This is in part because management usually addresses most of the problems or adjustments that auditors discover before the financial statements are issued.

An unmodified review report effectively states the reviewer did not become aware of anything that suggested the financial statements do not present a true and fair view in accordance with accounting standards.

Emphasis of matter and other paragraphs

In some circumstances, the auditor will include additional wording in the auditor's report directing users to information that in their view is fundamental to understanding the financial statements. This may be information included in the financial statements, such as a note (called an "emphasis of matter" paragraph), or information that is included elsewhere (called an "other matter paragraph"). It is important to note that an emphasis of matter or other matter paragraph is not a qualification, limitation or adverse conclusion (for these types of auditor's reports, see *Modified auditor's reports* below).

Type of paragraph	Examples
Emphasis of matter	• There is a significant uncertainty as to the company's ability to continue as a going concern, which has been appropriately disclosed in the financial statements. • The financial statements are not prepared on the basis of applying all accounting standards.
Other matter	There is information included in an annual report that is inconsistent with the audited financial statements (for example, the figures in the operating review are inconsistent with those disclosed in the financial statements).

Modified auditor's reports

Modified auditor's reports are issued when the auditor believes the financial statements contain a **material misstatement**, or when the auditor is unable to obtain enough evidence to form an opinion. The following table sets out the different types of modified auditor's reports that may be issued in these situations.

Type of modified audit opinion	Description	Situations where this type of report may be issued	Examples
Qualified or "except for" opinion	The opinion states the financial statements present a true and fair view, and are in accordance with accounting standards *except* for the effect of a specific matter or matters. The issues are described in a separate paragraph within the report.	A qualified opinion is issued when a specific part of the financial statements contains a material misstatement or adequate evidence cannot be obtained in a specific, material area, and the rest of the financial statements are found to present a true and fair view, in accordance with accounting standards.	The auditor has a different view on the valuation of an asset than that applied by management in the financial statements, but the rest of the financial statements were found to be free of material misstatements.
Disclaimer of opinion	The auditor cannot reach an opinion overall on the financial statements and therefore disclaims any opinion on it.	A disclaimer of opinion is issued when the auditor cannot obtain adequate evidence to form an opinion on the financial statements overall.	The company's financial reporting information system is damaged and key data is lost, meaning adequate evidence is not available to support the disclosures in the financial statements.
Adverse opinion	The opinion states that the auditor believes the financial statements *do not* present a true and fair view, and *are not* in accordance with accounting standards.	An adverse opinion is issued when the auditor believes misstatements are so pervasive that the financial statements do not present a true and fair view, or are not in accordance with accounting standards.	The auditor believes that management has applied an inappropriate financial reporting framework in preparing the financial statements.

How can you tell if the auditor's report is clean or not?

To determine if an auditor's report is clean or modified, you need to look at the "opinion" section. This is usually found towards the end of the auditor's report, before the auditor's name and signature. An unqualified or clean audit opinion will state that the auditor believes the financial statements present a true and fair view, and are in accordance with accounting standards and relevant legislation. A modified auditor's report will contain a qualification to that statement, a disclaimer or an adverse statement (see also "Modified auditor's reports").

What is auditor independence?

An independent auditor is free from external influence or bias and is therefore able to independently form judgements and conclusions during the audit. Auditors are subject to **professional ethical standards**, including extensive requirements for auditor independence both in mind and in appearance. It is critical that auditors are not only actually independent, but also seen as independent.

Many of the laws and regulations applicable to audits, such as those in the *Corporations Act 2001*, set out additional independence requirements that auditors of relevant companies need to meet. For listed companies in Australia, some of these additional requirements include:

- Rotation of lead auditors every five years
- Restrictions on auditors holding board positions at companies they have audited

The *Corporations Act 2001* requires a declaration of independence to be provided by the auditor to the board of directors, which is published in the annual report.

What do auditors and reviewers do?

The audit or review of financial statements is a systematic process designed to identify instances of material misstatement in the financial statements. Extensive **auditing and assurance standards** and legislative requirements set the framework and minimum requirements for financial statement audits and reviews.

The following diagram illustrates at a very high level what is involved in financial statement audits and reviews, and the order in which activities usually take place during the year:

Primarily performed prior to period end

Initial assessment and agreement on terms of the engagement

A key part of the initial assessment is whether the auditor/reviewer will be able to meet independence and other ethical requirements.

Understanding the company and assessing risks of material misstatement in the financial statements

Understanding the company involves an analysis of internal and external factors – in greater depth for an audit than a review. The assessed risks of material misstatement form a basis for the audit/review procedures to be performed.

Period end, e.g. 30 June

Primarily performed after period end

Performing procedures to address the risk of material misstatement in the financial statements

The types of procedures applied involve judgement and will vary significantly depending on the risks of material misstatement, nature of the entity and whether the engagement is an audit or review.

Finalisation and auditor's report signed (Australian listed companies: within 2 months of period end date)

For more on auditor/reviewer's reporting, see "The auditor's report", and illustrative examples in appendices 2 and 3.

What does materiality mean?

As mentioned above, auditors and reviewers are concerned with material misstatements, rather than *any* misstatement in the financial statements. Material misstatements are those that are significant enough to affect the decisions made by the users of the financial statements. This can be in terms of the quantitative or qualitative significance of misstatements.

Quantitative	The quantities or dollar amounts in the financial statements. For example, quantitatively material misstatements could include: • Overstating revenue • Missing/not recorded liabilities • Understating expenses
Qualitative	The nature of items in the financial statements. For example, qualitatively material misstatements could include: • Not disclosing certain related party transactions • Not disclosing management's remuneration These disclosures are important in evaluating how the company has been managed, although they may be small quantitatively in comparison to the scale of the company's overall operations.

What do auditors do in regard to fraud?

Auditors consider the possibility that fraudulent activities can result in material misstatement in the financial statements, and take this into account in planning and performing their work. Fraud is defined in auditing and assurance standards as an:

"intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage".

An audit is not an investigation intended to uncover all instances of fraud. However it is reasonable to expect that an audit would detect instances of fraud that result in material misstatement.

What do auditors do in regard to going concern?

The **going concern** assumption is that a company will continue in business for the foreseeable future. This assumption is adopted unless evidence indicates otherwise.

The going concern assumption has a significant impact on how a company's financial statements are presented (see "If going concern doesn't apply").

In preparing the financial statements, management makes an assumption as to whether it believes the company will be able to continue as a going concern. The auditor performs work to assess this assumption as part of the audit.

If going concern doesn't apply

Companies that are not a **going concern** report on a different basis from those that are – for example, assets and liabilities would be recognised at their immediate sale value/liquidation value, rather than their value in future use.

The work of the auditor includes:

- Obtaining evidence that can be used to assess the appropriateness of management's assumptions in regard to going concern.
- Forming a conclusion on whether that evidence indicates any material uncertainties in the ability of the company to continue as a going concern.

The auditor's focus in this assessment is whether the company can continue as a going concern for a 12-month period from the date of signing the auditor's report.

The going concern assumption involves judgements about events taking place in the future, which are inherently uncertain. Where there is significant uncertainty in the company's ability to continue as a going concern and this has been disclosed by management in the financial statements, the auditor includes wording in the auditor's report to direct users to the applicable note in the financial statements. This is called an emphasis of matter paragraph (explained further on page 7). If the auditor ultimately does not agree with management's assumptions in regard to going concern, the result would be a modified opinion (see "The auditor's report").

Does a clean auditor's report mean a clean bill of health for the company?

Auditor's reports are intended to increase the degree of confidence users have in the information in financial statements – not about the state of the company itself or whether it is a safe investment. An unmodified auditor's report means investors or other stakeholders can make an assessment of the company based on its financial statements, with a higher degree of confidence that the information is materially correct and unbiased.

Auditor's do perform a role in assessing the appropriateness of the going concern assumptions used by management in preparing the financial statements, but this cannot be taken as a conclusion on the solvency or financial health of the company (see "What do auditors do in regard to going concern?")

Does the auditor sign off on the whole annual report?

The auditor's report is about the financial statements, which are usually included in the annual report. In the case of listed companies in Australia, the auditor also provides an opinion on the remuneration report, which discloses the remuneration of key management personnel. Other information within the annual report may not have been subjected to assurance (for example management discussion and analysis, or an operating review). However, the auditor does consider whether this accompanying information is consistent with the audited financial statements. So for example, the auditor would report if the profit results included in the operating review were inconsistent with those in the financial statements.

Difference between internal and external audit

Internal audit is an appraisal activity established within an entity and functions under the direction of the company's management and board. It is a management tool and forms part of the company's internal control structure. In general, the main focus of an internal audit is to evaluate the adequacy and effectiveness of the company's internal control.

Conversely, an external audit is undertaken by an auditor who is independent from the entity and has been appointed to express an opinion on the financial statements or other specified accountability matter. External auditors act and report in accordance with their mandates, which may be dictated by legislation, regulation or established in a contract.

Other assurance

Assurance is also applicable in a wide and expanding range of other areas aside from financial statements. Some examples include:

- Compliance with regulations
- Sustainability reports
- Greenhouse gas emission statements
- Prospectuses

A wide group of stakeholders increasingly need credible information in regard to the performance and impact of companies in these areas.

Appendix 1 – Glossary

Accounting standards: Mandatory standards applied in preparing financial statements. In Australia, these standards are issued by the Australian Accounting Standards Board, and internationally by the International Accounting Standards Board.

Assurance: The expression of a conclusion that is intended to increase the confidence of users in subject matter or information (see also "What does assurance mean?")

Assurance practitioner: A professional assurance services provider.

Auditor's report: The final report that sets out the auditor's opinion (see also "The auditor's report", and an example of an auditor's report in Appendix 2).

Auditing and assurance standards: Mandatory standards applied by assurance practitioners in audits, reviews and other assurance engagements. In Australia these standards are issued by the Australian Auditing and Assurance Standards Board, and internationally by the International Auditing and Assurance Standards Board.

Financial statements: Four primary financial statements for the current and comparative financial period (statement of comprehensive income, statement of financial position, statement of changes in equity, and cash flow statement), plus the notes to the financial statements. See also, "A guide to understanding annual reports: Listed companies" available on CPA Australia's website.

Going concern: An enterprise that is expected to continue in business for the foreseeable future (see also "What do auditors do in regard to going concern?")

Limited assurance: A level of assurance that is meaningful, but lower than reasonable assurance (see also "What does assurance mean?")

Material misstatement: An inaccuracy or omission from the financial statements that is significant enough to affect the decisions made by users of the financial statements.

Professional ethical standards: The ethical standards applicable to the accounting profession, including those applicable to assurance practitioners. In Australia, these standards are issued by the Accounting Professional and Ethical Standards Board, and internationally by the International Ethics Standards Board for Accountants.

Reasonable assurance: A high but not absolute level of assurance (see also "What does assurance mean?")

Review report: The final report that sets out the review conclusion (see also "The auditor's report", and an example of a review report in Appendix 3).

True and fair: Presenting an accurate and unbiased picture of a company's financial performance and position in the financial statements.

Appendix 2 – Example auditor's report

Independent auditor's report

The report is addressed to the members or shareholders of the company

To the Members of ABC Company Ltd.

This section sets out the basic details of the engagement – the applicable reporting period, name of the company, and what was audited

Report on the Financial Report

We have audited the accompanying financial report of ABC Company Ltd., which comprises the statements of financial position as at 30 June 20X3, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

The directors are responsible for preparing the financial statements, and for the internal controls in the company

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note X, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Appendix 2 – Example auditor's report

The auditors are responsible for auditing the financial statements – this section also provides a brief description of what auditors do (see also "What do auditors and reviews do?")

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

The auditor confirms they have met the required independence standards

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of ABC Company Ltd., would be in the same terms if given to the directors as at the time of this auditor's report.

The auditor sets out their overall finding in the opinion. This is an example of an unmodified or "clean" audit opinion. See also "The auditor's report" for information on modified opinions.

Opinion

In our opinion:

(a) the financial report of ABC Company Ltd. is in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the company's and consolidated entity's financial positions as at 30 June 20X3 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note X.

Audit firm

AUDIT FIRM

Audit Partner

AUDIT PARTNER

Sydney, 30 September 20X3

Appendix 3 – Example review report

Independent auditor's review report

This is a review – why does it say "auditor"?

The auditor that will audit the financial statements at the end of the year usually conducts the half-year review – so the report refers to the review performed by the independent auditor.

The report is addressed to the members or shareholders of the company

To the members of ABC Company Ltd.

This section sets out the basic details of the engagement – the reporting period, name of the company, what was reviewed

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of ABC Company Ltd., which comprises the condensed statement of financial position as at 31 December 20X2, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

The directors are responsible for preparing the financial statements and for the internal controls in the company

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

The auditor is responsible for reviewing the financial statements – this section also provides a brief description of what auditors do (see also "What do auditors and reviews do?")

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a *Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the company's financial position as at 31 December 20X2 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001. As the auditor of ABC Company Ltd., ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review has substantially less scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Appendix 3 – Example review report

Independent auditor's review report

The auditor confirms they have met the required independence standards

Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of ABC Company Ltd., would be in the same terms if given to the directors as at the time of this auditor's report.

The auditor sets out their overall finding in the conclusion. This is an unmodified or "clean" conclusion. See also "The auditor's report".

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of ABC Company Ltd. is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the company's financial position as at 31 December 20X3 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and Corporations Regulations 2001.

Audit firm

AUDIT FIRM

Audit Partner

AUDIT PARTNER

Sydney, 30 September 20X3

cpaaustralia.com.au

Competition in the ASX listed company audit market: preliminary results

CPA Australia & AFAANZ Synthesis Study

March 2013

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Competition in the ASX listed company audit market: preliminary results

CPA Australia & AFAANZ Synthesis Study

In July 2012, CPA Australia launched a project with the Auditing and Assurance Special Interest Group (AAASIG) of the Accounting and Finance Association of Australia and New Zealand (AFAANZ) to examine the structure of the ASX listed company audit services market. AAASIG and CPA Australia selected a research team, which was given an open remit to extend our knowledge on this topic. Team members included Professor Elizabeth Carson of UNSW (team leader), Dr. Nives Botica Redmayne of Massey University and Lin Liao of UNSW. The preliminary results of the study examine all ASX listed companies with audit opinions signed in Australia, disclosing audit fees in Australian dollars.

Preliminary Results

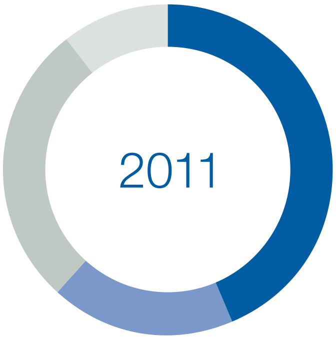
Overall findings

- Analysis of market structure, competition and concentration from 2000 to 2011 indicate a competitive and complex market
- Growth in audit firms appears to have largely evolved in response to growth in/demand from the underlying listed company market
- Larger audit firms focused on larger company financial statement audits, small and medium audit firms focused on small and medium company financial statement audits

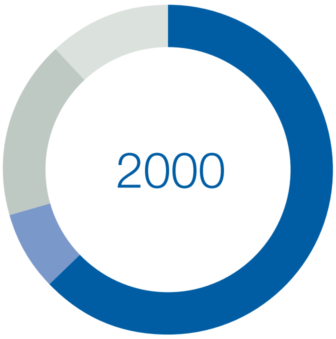
Market share and structure

- Market share by number of ASX listed company financial statement audits of the largest audit firms decreased from 63 per cent to 44 per cent over the period of analysis
- Market share by audit fees of the largest audit firms decreased from 91 per cent to 87 per cent over the period of analysis
- The lesser decrease in market share by audit fees compared to number of ASX listed company financial statement audits indicates:
  - The larger audit firms are focusing on larger company financial statement audits, while small and medium audit firms have focused on medium and smaller listed company financial statement audits, and taken on many of the newly listed company financial statement audits over the period of analysis
  - The impact of an increase in the scale of largest listed companies due to global and national acquisition/ merger activity and growth
  - Significant step up in scale of listed entities at the top tier of the market (S&P/ASX200) as compared to the scale of medium and smaller sized listed companies

Market share by number of financial statement audits

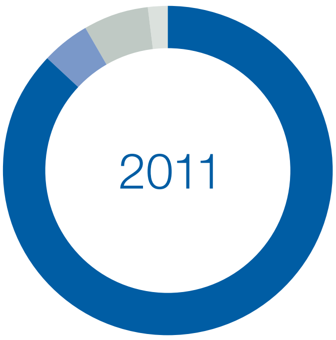


Largest audit firms	43.65%
Large medium sized audit firms	18.19%
Medium audit firms	27.83%
Smaller audit firms	10.33%

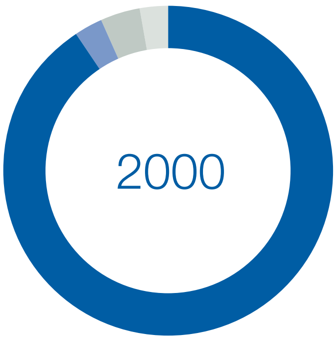


Largest audit firms	62.92%
Large medium sized audit firms	7.75%
Medium audit firms	17.42%
Smaller audit firms	11.92%

Market share by audit fees



Largest audit firms	87.22%
Large medium sized audit firms	4.52%
Medium audit firms	6.50%
Smaller audit firms	1.76%



Largest audit firms	90.66%
Large medium sized audit firms	2.84%
Medium audit firms	3.89%
Smaller audit firms	2.61%

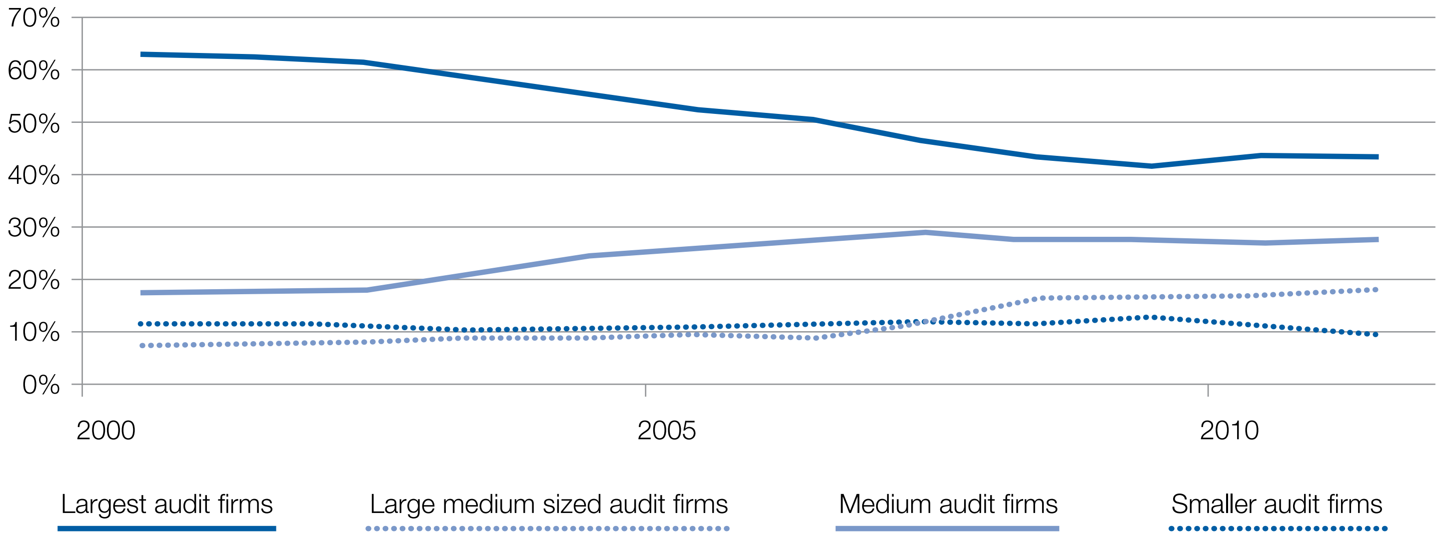
Largest audit firms total firm revenue over $500m, large medium sized audit firms $150m - $500m, medium audit firms $100m - $150m, smaller audit firms below $100m.

- Medium and smaller audit firms were gaining market share between 2000 to 2011 in companies below the top ASX listed 200 companies
- Over that period, the number of financial statement audits undertaken by small and medium sized firms for medium sized ASX listed comvpanies increased from 35 per cent to 56 per cent
- In the mining industry, the number of financial statement audits undertaken by small and medium sized firms increased from 35 per cent to 70 per cent over the period of analysis

Market size

- Total audit market size by audit fees for financial statement audits of companies listed on the ASX with audit opinions signed in Australia and disclosing audit fees in Australian dollars increased from A$183m to A$518m from 2000 to 2011
- The number of companies listed on the ASX with audit opinions signed in Australia and disclosing audit fees in Australian dollars increased from 1200 to 1858 over the period of analysis

Trend in market share by number of financial statement audits



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