



Australian Government

Financial Reporting Council

Parliamentary Joint Committee on Corporations and Financial Services: Statutory Oversight of the Australian Securities and Investments Commission

Ms Lynn Wood, Chairman of the Financial Reporting Council

15 March 2013, Sydney

Opening statement

- Thank you for your invitation to present an opening statement. I will be brief.
- Under the current provisions of the *Corporations Act 2001*:
 - The integrity of financial reports is essentially the responsibility of directors. In practice directors typically delegate responsibility for preparing financial reports to management of the audited entity. Directors must however approve the financial reports prepared by management and complete a declaration stating that the accounts have been prepared in accordance with accounting standards and present a true and fair view. They also declare that there are reasonable grounds to believe the company will be able to pay its debts as and when they fall due. Directors are directly answerable to shareholders. Auditors are appointed by shareholders, usually on the recommendation of directors, to provide an independent opinion on the financial reports.
 - Audit processes are overseen by:
 1. the corporate regulator (ASIC), who conducts inspections of audit firms and also registers individuals as Registered Company Auditors;
 2. the Auditing and Assurance Standards Board (AUASB) which sets audit standards;
 3. the Financial Reporting Council (FRC) which I chair and which oversees the AUASB though does not have the power to direct it on particular auditing standards;

4. Treasury in relation to policy development; and of course
5. the Parliamentary Joint Committee.

The accounting profession, mainly represented by the Institute of Chartered Accountants in Australia, CPA Australia and the Institute of Public Accountants also conducts reviews of audits undertaken by its members.

- The FRC established an Audit Quality Committee in late 2012 following the passage of the *Corporations Legislation Amendment (Audit Enhancement) Act 2012*, (the Act) on 27 June 2012.
 - The Audit Quality Committee has been tasked with providing strategic advice to the FRC on the quality of audits conducted by Australian auditors given the Act replaced the FRC's auditor independence function with a requirement to monitor and provide advice to the Minister and professional accounting bodies on audit quality.
- The Act's other reforms included the extension of audit partner rotation periods by two years under certain circumstances; the publication of annual transparency reports by certain audit firms; the ability for ASIC to issue audit deficiency reports in certain circumstances; and the ability for ASIC to communicate directly with an audited body on certain audit matters.
- The Act was supported by both the Coalition and industry as a non-controversial measure. The Parliamentary Secretary to the Treasurer Hon Bernie Ripoll noted that the aim of improving the audit regulation framework was to ensure that it continues to operate effectively, to strengthen market confidence and to maintain international best practice.
- Prior to the Audit Enhancement Act, reforms introduced by the *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* (CLERP 9) enhanced the corporate governance and accountability framework for Australian companies.
 - These reforms improved auditor independence requirements, registration requirements and auditor obligations, enhanced audit oversight and made auditing standards legally enforceable for Corporations Act audits.
- I will try to assist the Committee regarding enquiries about the FRC's audit related functions.

Lynn Wood

FRC Chairman