



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

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Opening Statement

Thank you for the opportunity to speak to you this morning. 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, in addition to my comments today, has also provided a written submission which I hope will be useful for the committee, and I would request that this be tabled, if possible, for the public record. That would be most appreciated.

The importance of audit in Australia's capital markets and business environment cannot be overstated. CPA Australia has implemented a comprehensive set of measures to promote audit quality in Australia, and globally, as detailed in its submission to the committee. Our focus in responding to the events of the past few years, the GFC, the horrible circumstances examined by this committee in some specific cases, are the needs of investors and stakeholders. These are Australians that need us to work towards real initiatives that will mean that they are better safeguarded by people, institutions and systems working effectively, together, to provide them with information they can understand and address risks that can affect their lives deeply.

The risk in adopting too narrow a focus, or in distractions from this important work, is that we will keep on learning the same lessons over and over again, and those Australians will not be any better off. In fact, regulation and other activity driven by a narrow or backward-looking focus, in this respect, can have the effect of creating complexity and a compliance-driven, box-ticking approach that means that fraud and other risks can penetrate more easily and substantially. The challenge, in our view, is not to add more boxes to tick that may have prevented a problem in hindsight, but to establish an effective framework and infrastructure that can anticipate and respond to the problems of the future.

CPA Australia is committed to this, and committed to initiatives that will improve audit quality. Yesterday, CPA Australia co-hosted a roundtable on the topic of audit quality with the Auditing and Assurance Standards Board. While it is not appropriate to name any individuals here, those present represented auditors, directors, standard-setters and management from large companies. There was agreement that audit quality needs to be addressed on a wide, multidimensional and constructive parameter if we are to learn from the past and prepare for the future in the public interest.

Australia's audit profession and audit regulatory framework is well regarded all over the world. As concluded by Treasury, following an extensive post-GFC strategic review on audit quality in 2010:

... our audit regime compares well in terms of international best practice and no fundamental reform is required. Treasury is of the view that Australia's financial reporting system and audit regulation is both robust and stable.

Australian businesses are striving to compete internationally for business and capital in very tight global conditions. The strength of our auditing and accounting profession represents one of our key advantages internationally. Further, CPA Australia recently surveyed over 6,000 business leaders in Australia and throughout Asia. Those both within and outside of Australia rated the efficiency and integrity of Australia's capital markets, including our regulatory and legal frameworks, as a substantial competitive advantage. In attracting capital and business to our shores, and supporting Australians doing business overseas, confidence and perception are everything.

Yet, in the months since the release of ASIC's most recent audit inspection program report, our corporate regulator appears to have taken every opportunity to cast doubt over the Australian audit profession. As outlined on ASIC's website:

The objective of this inspection process is to promote high quality external audits of financial reports, under chapter 2M of the Corporations Act and raise the standard of conduct in the auditing profession.

The process offers value through a very small risk-based sample. This provides focus areas and insights for use by the profession in achieving continuous improvement and high-quality audits. This is very valuable information, and CPA Australia is active in promoting the focus areas and building the focus areas into training, our professional program, quality review and other key audit quality infrastructure. We, in fact, host podcasts with representatives from ASIC about the focus areas on our website.

As an auditor, I am very aware of the importance of the nature of a sample, and the types of conclusions that can be drawn from it, including how the sample was selected and whether it is representative of the underlying population. The ASIC audit inspection program is not a representative sample of audits in Australia, hence CPA Australia questions the persistent statements on audit quality in Australia from ASIC's communications that have been widely reported in the media.

The mantra of one in six audits being deficient, of frustration, of disappointment and failure are just not backed up by the science and logic you would expect, given the ramifications of such statements. A risk-based sample is, in fact, intended to select audit files that are more likely to contain issues. Further, the basis of reporting, sample selection and the inspection work may vary from one period to the next, also putting ASIC's statement of a decline in audit quality under question. This is tough language. A reasonable person would conclude that this is for public consumption, not for the profession. It is tough talk giving an impression of action, of activity by the regulator.

We are concerned that this could be confusing to the community, particularly given that we are all well aware of financial literacy issues and the issues around knowledge and understanding in the community of auditing and assurance, and we are trying to address those issues. In fact, one of the documents in our submission is CPA Australia's *A guide to understanding auditing and assurance: listed companies*. In our view, it is of utmost importance to the public interest to provide confidence and clarity to the community. It is clear that the impact of ASIC's language around its most recent inspection report is unhelpful to the objective of the program—to promote high-quality financial statement audits—as it distracts from the real value of the program: identifying focus areas and fostering a constructive dialogue with the profession.

But perhaps what concerns us most is what is missing from their report. We are seeing this repeated communication and we need to be made aware of issues that may exist within the profession and within our economy. We do not shy away from criticism. We want to know about issues and we are concerned about what is being missed for all the fanfare in communication. These were clear and widely held views at yesterday's roundtable on audit quality.

ASIC's language has cast doubt over the Australian audit profession—and, by import, the transparency and confidence of our markets—at a time when Australian businesses need all the support they can get to highlight our strengths internationally. ASIC's approach is a significant distraction from real constructive change, for which we must focus not only on how auditors are performing their work but, perhaps more importantly, on what work they are performing and the effectiveness of the information they are auditing. Capital markets and associated technology have evolved immensely, even over just the past 10 years. Without an appropriate focus on the bigger, harder questions, such as how reporting can evolve alongside those capital markets, we risk facing the same issues over and over again.

CPA Australia, along with the profession globally, are committed to this evolution and to audit quality. I would be glad, should it be of interest to the committee, to elaborate on initiatives such as integrated reporting, more effective disclosure of business models and risks, making full use of available technology in reporting and improved auditor reporting. I trust that the documents CPA Australia has provided in its submission will be useful for the committee. I thank you again for the opportunity to address these important matters.