

31 August 2023

Committee Secretary  
Parliamentary Joint Committee on Corporations and Financial Services  
PO Box 6100  
Parliament House  
Canberra ACT 2600  
By email: [corporations.joint@aph.gov.au](mailto:corporations.joint@aph.gov.au)

## **AUSTRALIAN SHAREHOLDERS' ASSOCIATION – ETHICS AND PROFESSIONAL ACCOUNTABILITY: STRUCTURAL CHALLENGES IN THE AUDIT, ASSURANCE AND CONSULTANCY INDUSTRY**

Dear Sir/Madam

The Australian Shareholders' Association (ASA) represents its members to promote and safeguard their interests in the Australian equity capital markets. The ASA is an independent not-for-profit organisation funded by and operating in the interests of its members, primarily individual and retail investors, self-managed superannuation fund (SMSF) trustees, and investors generally seeking ASA's representation and support.

In response to the Inquiry into the Ethics and Professional Accountability: Structural Challenges in the Audit, Assurance and Consultancy Industry, we take the opportunity to call for the enactment of the recommendations contained in the [Parliamentary Joint Committee on Corporations and Financial Services' Regulation of Auditing in Australia: final report](#) dated 11 November 2020, with 2021 dates replaced with 2024:

### **Recommendation 1**

Corporate regulator Australian Securities and Investments Commission (ASIC) to revise its audit inspection regime by 2020-21, specifically grading the severity of auditing defects.

### **Recommendation 2**

ASIC to publish individual audit firm inspection results by the end of FY2021.

### **Recommendation 3**

ASIC and the Financial Reporting Council (FRC), the government's advisory body on financial statement quality, to define audit and non-audit categories and fee disclosure requirements by the end of FY2021.

### **Recommendation 4**

The government to amend the Corporations Act to require auditors to confirm they have not provided prohibited non-audit services.

### **Recommendation 5**

The Australian Professional Ethics and Standards Board, an industry-funded standard-setting body, to revise its code of ethics (APES 110) to stop partner incentives to sell non-audit work to audit clients.

### **Recommendation 6**

The FRC to require companies to disclose audit firm tenure in financial reports by the end of FY2021.

### **Recommendation 7**

The government to amend the Corporations Act to require companies to go to public tender for auditors every 10 years or, if they do not, explain why in their annual reports.

### **Recommendation 8**

The FRC to review the effectiveness of Australian reporting standards related to fraud and company managements' assessment of whether a company has the resources to continue being "an ongoing concern".

### **Recommendation 9**

The government to amend the Corporations Act to require audited companies to assess their financial reporting internal controls.

### **Recommendation 10**

The government to legislate to make digital financial reporting standard practice in Australia.

We see the recommendations as improving the nature of auditing in Australia, and that they have no value until implemented.

### **Personal integrity equally crucial as structure**

The terms of reference of the inquiry relate to the structure of partnerships and companies. We will leave others to debate the details but call on all individual participants in the industry to acknowledge the importance of their individual roles and the roles of their peers and to carry out their responsibilities with the highest ethical standards whatever the structure they are working within.

### **Chain of Assurance**

As we said in our submission to the Parliamentary Joint Committee on Corporations and Financial Services Inquiry on Regulation of Auditing in [Australia](#), ASA sees external auditors and the audit of financial accounts as part of a chain of assurance, which supports the quality and maintenance of investor confidence in the information presented in financial reports. The agents or actors in this chain of assurance include directors (full board), audit committee, executives, internal auditors, external auditors, regulators, and shareholders, all fulfilling the expectations of their respective roles.

The degree of assurance and confidence relies on the perceived integrity and independence of the agents, and management and minimisation of conflicts of interest as well as perception of conflicts of interest. The professionalism of the external auditor is crucial. As noted in the Accounting Professional & Ethical Standards APES 110 Code of Ethics for Professional Accountants (including Independence Standards), the professional obligations and ethical requirements imposed on members of the accounting profession are based on the five fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour in the Code. Without these, the independent external audit loses all value.

### **Summary**

All market and industry participants have a part to play in ensuring confidence in the integrity of reporting and of financial markets. We urge all to do their part.

If you have any questions about these comments or other matters, please do not hesitate to contact me or Fiona Balzer, Policy & Advocacy Manager

Yours sincerely

Rachel Waterhouse  
Chief Executive Officer  
Australian Shareholders' Association