

# Submission to Parliamentary Joint Committee on Corporations and Financial Services



We welcome the opportunity to contribute to the Parliamentary Joint Committee's Inquiry into the Regulation of Auditing in Australia. This Inquiry comes at a critical time for the audit profession given the on-going international and domestic scrutiny on audit quality as well as questions regarding conflicts of interest. We believe maintaining a high quality audit profession is the highest priority. We are proud of our audit business, we continue to invest in audit quality and we are committed to doing more over the years ahead. We are focused on continuous improvement and our submission includes several areas where we are increasing transparency, governance and process to enhance audit quality.

The role of the auditor exists in the context of a broader system involved in the preparation and oversight of accurate financial information, including management, directors and regulators. It's important for the Inquiry to consider this broader system within which the audit sits.

Whilst auditors should be focused on continually improving performance within the scope of the current "statutory audit", there are a number of potential areas outside the current legal and auditing standard frameworks that also warrant consideration. For example, confirmation from companies that their internal controls, risk management and governance procedures are adequate and fit for purpose for the current business environment. These are assurances that many stakeholders already expect the auditor to be providing, in what is described as the "expectation gap". Other potential examples include assurance over business model effectiveness, fraud, misconduct, cyber risk management and the accuracy of other statements made to the market including forecasts.

Addressing this expectation gap is not a simple task, but one we think should be explored to further strengthen trust in the system, similar to the Quality and Effectiveness of Audit Review<sup>1</sup> currently being undertaken in the United Kingdom (UK) led by Sir Donald Brydon ("Brydon review").

We are listening to the questions being asked of our industry and we are open to making changes that enhance trust in our own audit business, and more generally across the industry. Our submission makes a number of key recommendations including:

1. Non-audit services – we recommend an independently led review of non-audit services provided to listed companies. This review should consider whether further restriction of these services would enhance trust in the audit profession and should be completed by 30 June 2020. We believe the Accounting Professional and Ethical Standards Board (APESB) is best placed to lead this review in consultation with the audit profession, listed companies and industry bodies. We are also working with the Australian Securities and Investments Commission (ASIC) to encourage our clients to enhance the detail and consistency of reporting of services provided by their auditor.
2. Accountability through transparency – PwC supports ASIC's plans to publicly disclose the individual findings from audit file inspections, incorporating a guide on the severity of findings and the firm's response to these findings. PwC also supports the development of a "balanced scorecard" approach to the assessment of audit quality in Australia, noting that ASIC has already commenced this work.
3. Creation of a task force to consult with representatives from audit firms, ASIC, listed companies, investors and oversight bodies to undertake an expectation gap review in Australia on the future scope of audit, similar to components of the Brydon review in the UK. Experience in the UK shows this initiative would benefit from government sponsorship.

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<sup>1</sup> The Independent review by Sir Donald Brydon into the quality and effectiveness of audit. Terms of Reference: <https://www.gov.uk/government/publications/the-quality-and-effectiveness-of-audit-independent-review>

## Audit quality in Australia

Australia's financial reporting processes are performed by the management of each company<sup>2</sup> with oversight by its board. The process for each company includes the preparation of financial statements from the company's books and records, supported by internal controls and risk management processes. Auditors subsequently perform audits of these financial statements to assess if they materially comply with legislation and accounting standards, and give a true and fair view of the company's financial operations. This process is subject to regulatory oversight by ASIC.

There are a range of responsibilities established under law and professional standards that define the role of an independent auditor. For a detailed overview of Australia's financial reporting and auditing regulatory system, including the standards applying to auditors and what constitutes an audit, we refer you to ASIC, Treasury, and Chartered Accountants Australia and New Zealand's (CAANZ) submissions<sup>3</sup>.

Audits of companies play a critical role in a strong, competitive and trusted financial system, and many important decisions are based on the financial statements a company releases each year. Core to an auditor's job is providing independent assurance that these statements are true and fair, and it's one that the 1,000+ professionals in our audit practice at PwC take very seriously. The businesses our clients operate are complex, the transactions they enter into are complicated, and the work our people undertake requires both the input of specialist skills such as valuations and actuarial, and high levels of professional judgement.

Whilst ASIC's audit inspection findings highlight important areas of improvement for auditors to focus on, we believe the quality of auditing in Australia is generally of a high standard. Industry wide, 4-5% of financial accounts reviewed by ASIC's Financial Reporting Surveillance Program in recent years required a material change to net assets and profits.

## About PwC Australia

PwC has been a proud Australian business for more than 145 years, with offices in Adelaide, Brisbane, Canberra, Melbourne, Newcastle, Perth, Parramatta and Sydney. Our firm turns over in excess of \$2.6 billion in revenue and employs more than 8,000 people, making us a significant contributor to Australia's economy. We deliver a range of audit, consulting and financial advisory (deals, infrastructure, legal, private clients, and tax) services to around 5,000 clients across all industries including ASX listed companies; government entities; high net worth families; not-for-profits; private companies; small business; and start ups. Our people come from a diverse range of backgrounds including accounting, arts, business, economics, engineering, finance, health, law, and tax. In 2019 we hired 554 graduates and 394 interns across our firm and were among LinkedIn's top companies for where Australians want to work. PwC Australia is owned by 734 partners who pay an average tax rate of 37% on the profits of the firm.

PwC Australia is part of a global network of separate firms operating in 157 countries with over 276,000 people. Membership of the global network allows firms to work together to provide quality services globally to international and local clients. We are a standalone Australian partnership, but operate under a licence for the PwC brand, and must adhere to a range of global standards and service methodologies. This includes quality control and compliance monitoring activities that cover the provision of services, ethics and business conduct, and compliance with specific standards for audit independence monitoring.

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<sup>2</sup> We have referred to *companies* throughout this submission. We are aware that there are a variety of entities that are subject to an audit, but that the focus of this Inquiry is registered company auditors' audits of companies' financial reports as set out in Chapter 2M of the Corporations Act 2001.

<sup>3</sup> As at the date of this report, we refer to submissions 2, 15 and 16:  
[https://www.aph.gov.au/Parliamentary\\_Business/Committees/Joint/Corporations\\_and\\_Financial\\_Services/RegulationofAuditing/Submissions](https://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Corporations_and_Financial_Services/RegulationofAuditing/Submissions)

## **PwC's audit business**

Auditing is the cornerstone of our Assurance business and our brand has been built on the audit services we deliver. We have the highest market share of the large audit firms in Australia, auditing approximately 30% of the ASX200. PwC remains unequivocally committed to being a leading provider of audit services globally and in Australia. We are proud of the work we do and the processes we have in place to deliver audit quality. Our audit business is substantial, with 135 partners, more than 1,000 staff, and fees of \$443 million in FY19.

Some public commentary has suggested that the largest audit firms use their audit work as a loss leader in order to win more profitable non-audit related consulting work. At PwC, audit is not used as a loss leader for growth in other parts of the firm. The level of profitability across our Assurance, Consulting and Financial Advisory businesses is broadly equal, demonstrating balance and strength right across the portfolio. Our level of investment in audit is such that we intend for this to remain the case.

We have just released our 2019 Assurance Transparency Report on our audit business<sup>4</sup>, which is an annual disclosure document required by the Corporations Act, containing details of our firm's quality control system, including the way we foster a culture of quality at every level of the firm. Earlier in the year we released our 2019 Audit Quality Balanced Scorecard<sup>5</sup>, the first for an Australian firm, including our individual ASIC audit inspection results along with other key measures of audit quality such as internal inspection findings, restatement rates, and adjustments to financial statements.

We recommend that both of these reports be read in conjunction with this submission as they provide further context around our commitment to excellence in auditing.

## **How PwC Australia is investing in audit quality**

Reviews of the professional services industry and the audit profession in particular have been prevalent in a number of countries, most recently in the UK, and we have been following these debates and the developments of the various global reviews closely. As various potential changes being suggested around the world are considered in our local market, we need to focus on two key questions: are they relevant to Australia; and will they have a positive impact on audit quality? The below initiatives demonstrate our commitment to audit quality in Australia and how we are responding to changing community expectations. Each development has been undertaken in consultation with our stakeholders and forms part of our focus on a number of related goals: improving quality in a sustainable way, becoming more transparent, and enhancing trust in our brand and industry.

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<sup>4</sup> <https://www.pwc.com.au/assurance/transparency-report.html>

<sup>5</sup> <https://www.pwc.com.au/assurance/audit-quality-balanced-scorecard/audit-quality-balanced-scorecard-report-2019.pdf>

Initiative	Detail
<b>PwC's Audit Quality Balanced Scorecard</b>	<p>We believe that an important element in any quality framework is accountability. This is enabled by transparency over quality measures and performance against them, as well as balance in the assessment by incorporating a range of measures. In May 2019, we published our first Audit Quality Balanced Scorecard. This scorecard included our ASIC audit inspection results, as well as a range of other audit quality measures such as internal inspection findings, restatement rates, and adjustments to financial statements. We will update this scorecard annually.</p>
<b>A new Audit Quality Advisory Board</b>	<p>We are in the process of establishing an independent Audit Quality Advisory Board comprising a number of external members, to assist us to continually enhance our approach to audit quality. The Board will be asked to provide unique external challenge around audit quality at our firm, including decisions regarding the remuneration of audit partners. Its members will come from a range of roles relevant to the audit profession, including those with regulatory, auditing and standard setting experience. A summary of the Board's observations will be made public in our annual Transparency Report.</p>
<b>Enhancing trust – A review of non-audit services for ASX listed audit clients</b>	<p>We recommend a review of non-audit services provided to listed companies, to consider whether further restricting these services would enhance trust in the audit profession. This review should be completed by 30 June 2020. We believe it would be helpful for this review to be led by the APESB, and in consultation with companies, industry bodies and policy makers.</p> <p>We are also working with ASIC to encourage our clients to enhance the detail and consistency of reporting of services provided by their auditor.</p> <p>Australia's current regulatory settings provide guidelines around the types of non-audit services that can be provided to audit clients, and the majority of ASX listed companies have their own rigorous systems and processes in place to effectively manage potential conflicts. In addition, PwC adheres to professional standards, including the IESBA Code of Ethics as well as our Network Standards, Policies and Codes of Conduct. Regardless, we recognise that community expectations are changing where a company is accessing a range of other services from their audit firm. To continue to build trust in our profession, we need to not only effectively address potential conflicts with appropriate safeguards, but also make some changes to eliminate perceptions of conflicts as well.</p>
<b>Evolving our Audit Partner Accreditation Process</b>	<p>The primary focus of each of our audit partners is on audit quality. As a result, the substantial majority of their focus is on the execution, quality review or oversight of audits.</p> <p>There is an annual registration and monitoring process of Registered Company Auditors by ASIC. In addition, our Australian Financial Statement Audit Partner Accreditation Policy is applied annually, to ensure the continued appropriateness of each partner to sign assurance opinions. The criteria considered in the policy includes years of audit experience, relevant training completion, and the amount of hours spent on audit. This year we have evolved this internal process and are applying additional criteria to take into account partner experience and focus, partner audit revenue as a proportion of total revenues, and roles on audit engagements. This policy is part of our quality management system.</p>

Initiative	Detail
<p><b>Additional prioritisation and investment in audit quality</b></p>	<p>The PwC global network is continually investing in enhancements to audit quality. As part of this, the PwC global network has established an updated framework for quality management which integrates quality management into business processes and the firm-wide risk management process. We have adopted this updated global framework in Australia in the past 12 months. Also underway in Australia is:</p> <ul style="list-style-type: none"> <li>• a review of all aspects of our learning and education program to enhance focus on the ongoing development of scepticism and professional judgement as core skills of all our people and that any training is informed by our audit quality reviews</li> <li>• further investment in how we monitor quality – traditionally, audit quality has been measured by “lag” indicators such as post audit reviews. While the circumstances and facts of each audit will differ, we have recently developed a set of “leading” indicators to help us proactively identify emerging quality risks. The leading metrics cover matters such as hours of audit supervision, staff turnover, and completion of training</li> <li>• increasing the number of (or frequency of) reviews of audits in progress by teams independent of the audits.</li> </ul>
<p><b>Investment in digital upskilling</b></p>	<p>Effective use of technology improves audit quality. We are investing heavily in both global and local audit technology, and in upskilling our staff to maximise the use of these products and drive innovation. We are running a series of digital academies and acceleration programs for our audit partners and staff. 100% of our audit teams will have participated in a two-day Digital Academy by 30 June 2020. This will help enhance digital skills and equip all our teams to bring enhanced data analysis skills to auditing. It will also provide our teams with a more digital experience, aimed at improving retention and our people’s experience.</p>
<p><b>Enhanced transparency of information about our business</b></p>	<p>Transparency is increasingly becoming part of any business’ licence to operate as it helps drive accountability and better conversations about business performance. In our industry, stakeholders are asking professional services firms to disclose more about who we are and what we do. We have taken significant steps to increase transparency around our business. This includes being the first firm to publish our diversity and gender pay gap measures, our tax contribution to the Australian economy, as well as our audit quality balanced scorecard. External website references:</p> <ul style="list-style-type: none"> <li>• <a href="https://www.pwc.com.au/press-room/2019/pwc-australia-discloses-its-tax-contribution-to-the-australian-economy.html">https://www.pwc.com.au/press-room/2019/pwc-australia-discloses-its-tax-contribution-to-the-australian-economy.html</a></li> <li>• <a href="https://www.pwc.com.au/press-room/2018/partner-gender-pay-gap.html">https://www.pwc.com.au/press-room/2018/partner-gender-pay-gap.html</a></li> <li>• <a href="https://www.pwc.com.au/assurance/audit-quality-balanced-scorecard/audit-quality-balanced-scorecard-report-2019.pdf">https://www.pwc.com.au/assurance/audit-quality-balanced-scorecard/audit-quality-balanced-scorecard-report-2019.pdf</a></li> </ul>

## **Conclusion**

High quality audits enhance trust in the financial system. Our profession should act to ensure trust in audit is not compromised. At PwC we are constantly considering the future path of our business – the support, learning and education system for our people involved in audit; how community expectations are changing; how we can become more transparent; and what we can do to strengthen trust in our profession.

As evidenced in the table above, we have supported changes that have a direct and positive impact on audit quality or build trust in the financial system. We remain committed to delivering high quality audits, which underpin confidence in our financial system and Australia's economy more broadly.

We are committed to listening and learning through this Inquiry and being part of future reforms that are focused on continuous improvement in audit quality.

## RESPONSES TO SPECIFIC TERMS OF REFERENCE

### Section 1. Relationship between auditing and consulting and potential conflicts of interest

#### Key points

- We recommend a review of non-audit services provided to listed companies to consider whether further restricting these services would enhance trust in the audit profession.
- We are working with ASIC to encourage our clients to enhance the detail and consistency of reporting of services provided by their auditor.
- Audit is not used as a loss leader for growth in other parts of PwC Australia.
- Our audit partner remuneration processes are structured in such a way that no audit partner is incentivised, evaluated or remunerated based on selling non-audit services to their audit clients.
- Our multidisciplinary firm gives us the scale to invest significantly in the technology, automation and development of our business and our people, as well as access to specialist expertise – factors fundamental to the delivery of audit quality both now and into the future.

#### Background

Our firm has evolved over the past two decades into a multidisciplinary business. By multidisciplinary we mean we have a very diverse range of skills and experience that enable us to offer a comprehensive and varied set of services, including accounting services, actuarial, auditing, consulting, corporate restructuring, risk management services, and tax services. Our size gives us the opportunity to invest at significant scale in technology, automation, and the development of our people – all critical to attracting the best people and, in turn, enabling high quality audits. A recent paper released by the International Federation of Accountants provides evidence to support the importance of the multidisciplinary firm<sup>6</sup>.

Questions are being asked about whether the role and scope of audit should be expanded. Having access to a broad range of skills within our firm is essential and will continue to be essential if the role of audit evolves to cover more than providing assurance on historical financial reports.

#### The risk of conflict in a multidisciplinary firm and the provision of other services to audit clients

Operating a multidisciplinary business model can create the perception that audit partners are focusing on other priorities such as growth opportunities for the whole firm, rather than focusing on the provision of high quality audits. A number of stakeholders are raising questions regarding auditor independence when a company they audit is also accessing a range of other services from their firm. In 2019, the level of non-audit work at PwC clients in the ASX200 represented, on average, approximately 22% of audit fees.

We take independence and conflict risks seriously, and remain dedicated to operating within our internal and external regulatory frameworks, which are designed to limit exposure to the risks associated with conflicts of interest. As referenced earlier in this submission, we recently released our Annual Assurance Transparency Report. Page 19 of this report outlines our policies and systems that support our requirements to comply with all regulatory, professional and independence requirements related to financial interests in, and business and services relationships with our audit clients.

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<sup>6</sup> <https://www.ifac.org/system/files/publications/files/Audit-Quality-in-a-Multidisciplinary-Firm.pdf>



We also note the following:

- **Provision of non audit services to audit clients:** There are a number of laws, as well as regulatory and professional standards, that limit the services auditors can undertake for audit clients. Collectively they seek to protect against the auditor being put in a position of auditing their own work, acting in a management capacity or acting as an advocate for the company. In Australia these restrictions are set out in a combination of provisions in the Corporations Act and in a code of ethical conduct established by the Accounting Professional and Ethical Standards Board (APESB)<sup>7</sup>. This code is aligned with international equivalents and is reviewed periodically. The International Ethical Standards Board for Accountants (IESBA) is currently considering strengthening the component of the code which focuses on the risk of auditors being in a position of auditing their own work.

Where the equity or debt securities of a company being audited are registered in other jurisdictions, audit firms must comply with any additional limitations imposed by the regulatory bodies there. For example, for some clients we must comply with restrictions imposed by the United States (US) Securities and Exchange Commission (SEC). Our compliance against these frameworks is assessed by regulators such as the US Public Company Accounting Oversight Board (PCAOB).

We have systems, processes and dedicated personnel in place to support our people to uphold the restrictions on services. As the regulator of our audit practice in Australia, ASIC reviews these elements of our compliance as part of their review of our audit quality.

Notwithstanding the controls and safeguards surrounding the provision of non audit services, we understand that community expectations are changing and there is concern about auditor independence when a company they audit is also accessing a range of other services from their firm. We support a review of non-audit services provided to listed companies to consider whether further restricting these services would enhance trust in the audit profession. This review should be completed by 30 June 2020. We believe it would be helpful for this review to be led by the APESB, and in consultation with the audit profession, listed companies and industry bodies.

We are also working with ASIC to encourage our clients to enhance the detail and consistency of reporting of services provided by their auditor.

- **Audit is not a loss leader for PwC:** Audit is not used as a loss leader for growth in other parts of our firm. The level of profitability across our Assurance, Consulting and Financial Advisory businesses is broadly equal.
- **Audit partner incentives and focus:** Our audit partner remuneration processes are structured in such a way that no audit partner is incentivised, evaluated or remunerated based on selling non-audit services to their audit clients. Elements of remuneration that relate to audit quality are subject to a global accountability framework that is independently overseen by our risk and quality team. This framework includes financial penalties for failing to meet audit quality standards. Further, our measures for accreditation of audit partners ensure that the primary focus of each of our audit partners is on audit quality.

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<sup>7</sup> [https://www.apesb.org.au/uploads/standards/apesb\\_standards/standardc1.pdf](https://www.apesb.org.au/uploads/standards/apesb_standards/standardc1.pdf)

## 2. Other potential conflicts of interest

### Key points

- We have recently reviewed and updated our policy for when one of our people leaves the firm to take on a senior role in the public service. This is particularly relevant in this submission for when one of our people joins an agency that has regulatory or supervisory responsibility for our firm or partners.
- We are aware of commentary relating to PwC's retirement plan when a retired partner joins the Board or senior management of an audit client. We comply with current legal requirements in relation to this, but we will consider any further actions we can take to enhance trust in this area.

### Assessing and managing conflict risks across the wider firm

In addition to auditor independence controls and processes, we consider potential conflicts of interest in all areas of our business. The APESB Code of Ethics sets standards to identify and address conflicts of interest and the key element is that we must be "objective".

We have a dedicated risk and quality team who assess new client engagements for conflict risks and determine appropriate controls. We have invested in processes and controls to help our people anticipate potential conflict risks that may arise. Controls to mitigate conflict risk include restrictions on access to information to ensure confidentiality and segregation of teams. In many cases we agree our approach to potential conflicts with our clients to ensure they are satisfied with our approach to preserving our objectivity. If we are not satisfied that we can mitigate conflict risk we will decline the client engagement.

### Former partners joining government bodies

We believe that the transfer of skills and expertise between the public and private sectors is beneficial to the public interest as long as appropriate processes and guidelines are in place to address potential conflicts. We have recently reviewed and updated our policy which covers the situation when one of our people leaves the firm to take on a senior role in the public service, particularly in an agency that has regulatory or supervisory responsibility for our firm or partners. Measures include advising the relevant body of any ongoing financial interest the individual has in our firm and asking that the individual is not involved in making decisions about our firm while they hold a financial interest. If there is no financial interest, we will still ask that they recuse themselves from any decisions about our firm for a period of at least one year.

### Former partners in board and certain other roles at clients

Questions have been raised about the potential for a conflict to emerge when a former partner of our firm becomes an officer or board member of one of our clients, particularly when it is an audit client.

The Corporations Act requires a two year cooling off period before a partner can become a board member of a company the firm audits, where they were previously a member of the audit team. There are also restrictions under the Corporations Act on multiple former partners being officers of an audit client.

The Corporations Act specifies additional requirements for audit firm independence where a former partner of the audit firm is a board member or audit critical employee of an audit client and has a financial arrangement with the audit firm. Our partner retirement plan arrangements are financial arrangements. The financial arrangements with these individuals comply with the Corporations Act requirements, providing for regular payments of a dollar amount where the method of calculating the dollar amount is fixed and is not dependent on the revenues or profits of the firm. Accordingly former partners on the boards of audit clients do not participate in the profits of the firm either positively or negatively.

In addition to the provisions applying specifically to auditors or directors who are former auditors, section 191 of the Corporations Act and the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations specify governance requirements for all directors. These rules generally require the disclosure of any material personal interest to fellow directors.

We will consider any further actions we can take to enhance trust concerning retired partners who take officer roles at our clients.

We believe the transfer of financial and risk based skills from professional services firms to the boardrooms of corporate Australia provides a critical skill in the composition of boards, and therefore serves the public interest.

### Section 3. Level and effectiveness of competition in audit and related consulting services

#### Key points

- The audit market in Australia is competitive and the outcome has been to put pressure on price.
- Based on our experience of the Australian audit market and the conclusions drawn in the recently released Auditing and Assurance Standards Board (AUASB) report, we believe the market is working effectively and regulatory interventions to address competition are not warranted.

#### Background

The Australian audit market is mature and the audit product, as defined by law and standards, has not changed significantly over several decades. With only minimal growth in the number of companies and organisations that require audits, the market for audit services is more constrained relative to the growth for other professional services such as business consolidation, cyber security, tax, and transformation.

The effect of these trends has been that our audit business now represents approximately 17% of the total business today as measured by revenue. Despite this reduction in relative scale, the assurance business is still a very substantial business for PwC, with fees of \$443 million in FY19.

#### The competitive landscape

Our experience is that the Australian audit market is very competitive. We spend significant amounts of time competing for audit appointments in the large listed company sector. Purchasers are sophisticated buyers, who seek evidence of our commitment to high quality work and expect to see us bring new technologies and tools to our audit work.

Our competitors in the large listed company market are generally the other “Big 4” firms. This is often because these clients require a firm with global reach, access to a range of skills in the audit which a multi-disciplinary firm can provide, as well as the capital to be constantly investing in the latest technology and processes. In the last five years there have been 38 changes of auditors at the ASX200 listed companies. We estimate at least another 17 ASX 200 companies have conducted competitive tenders in this time, and retained their current auditor.

Where there is a small number of large participants in a market, there is a risk that the participants will exert their power to inflate prices in an unwarranted fashion. If that were the case, a regulatory response to mitigate this might be warranted. We are not aware of any evidence to show this has been the case in Australia. In contrast, the outcome of the very competitive market has often been to put downward rather than upward pressure on price.

In 2014, ASIC released Information Sheet (INFO 196), Audit quality – *The role of Directors and Audit Committees*<sup>8</sup>. The guidance explores the important factors that chairs of audit committees need to consider in appointing an auditor. Assessing fees is a key consideration identified in this document, particularly whether audit quality is likely to be compromised by reduced audit fees.

In October 2019, the AUASB released a research report titled *Audit Market Structure and Competition in Australia*<sup>9</sup>. The report, authored by Professor Elizabeth Carson of UNSW Sydney, states in relation to the period spanning 2012-2018, “*Audit fees in Australia over this period have increased but at a rate consistent with inflation and wage increases over this period for clients of Big 4, Large and Medium Non-Big 4 firms.*”

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<sup>8</sup> <https://asic.gov.au/regulatory-resources/financial-reporting-and-audit/auditors/audit-quality-the-role-of-directors-and-audit-committees/>

<sup>9</sup> [https://www.auasb.gov.au/admin/file/content102/c3/AUASB\\_ResearchReport\\_October.pdf](https://www.auasb.gov.au/admin/file/content102/c3/AUASB_ResearchReport_October.pdf)

*This is observed at a time of enhancements to auditing and accounting standards and resulting increased audit effort needed to complete audit engagements in times of regulatory change and public scrutiny”.*

Outside the large listed company market, competition for audits is also very high but there are also more participants. This is because these companies generally operate in a smaller number of jurisdictions and need less ‘global reach’ from their audit firm, or operate a less complex business model and so require a more limited range of industry expertise.

The AUASB report referenced above draws a distinction between our market and the UK and US. Whereas Big 4 firms audit 70% of the listed market in the US and 84% in the UK, their share in the Australian market is less than 40%. These statistics point to the fact that the Australian market is far more segmented. The report states, *“The largest and most complex clients are audited by the Big 4, with just over 90% of the largest 200 companies by market capitalisation in each year audited by the Big 4. The Big 4 audit 64.67 – 70.67% of the next 300 largest clients and 30.81 – 33.68% of the medium client segment. I identify a significant decline in the percentage of audits undertaken by the Big 4 in the small client segment from 18.80% in 2012 to 9.90% in 2018.”*

Based on our own experience of the Australian audit market and the conclusions drawn in the AUASB report, we believe the market is working effectively and regulatory interventions to address competition are not warranted.

### **Choice in related consulting services**

As noted in section 1, laws and standards limit the non-audit services that auditors can undertake for audit clients. Related services that companies can ask their auditors to undertake include reviews of regulatory compliance, reviews of controls around matters such as data protection and cyber security, and other services performed under auditing standards. Our competitors for these services include the other Big 4 professional services firms, but also smaller audit firms, large consulting firms, and ‘boutique’ specialist providers.

## **Section 4: Audit quality, including valuations of intangible assets**

### **Key points**

- PwC supports ASIC's plans to publicly disclose the individual firm's findings – rather than aggregate findings – from their audit file inspections. We also support the development of a balanced scorecard approach to the assessment of audit quality and recommend they incorporate a guide on the severity of findings and the firm's response to these findings in future reports.
- PwC is in the process of establishing an Audit Quality Advisory Board to provide external, objective guidance, feedback and advice about how we can continue to improve the quality of our audits.
- PwC is investing in technology and digitally upskilling our people so we can combine talented people with innovation around data and automation. We are also increasing the use of specialists in key audit risk areas; for example, forensic specialists where fraud is seen as a significant risk.

### **Audit quality in Australia**

A survey of ASX300 audit committee chairs, undertaken in 2018 by the Financial Reporting Council, found that 92% described their overall view of their auditor as either excellent or above average. For large public companies in Australia, we note that ASIC has required material changes to the net assets and profits of approximately 4-5% of financial accounts reviewed by their Financial Reporting Surveillance Program, which is comparable to other major jurisdictions.

It is difficult to entirely capture the day to day reality of a complex and challenging audit. For example, there are many cases where a company makes adjustments to its financial statements, or clarifies or enhances disclosures, before they're published, as a result of the audit process. For example, in 2018, PwC audits of listed companies identified, on average, six potential adjustments per audit and ensured their appropriate treatment prior to finalisation of the company's statements. The market only sees a clean set of financial statements and an unqualified audit opinion, but there is often a lot of work behind the scenes by the auditor with the client to achieve this outcome.

However, we hear very clearly the concerns raised both here in Australia, and internationally, around the lack of pace in improvement in audit quality inspection outcomes. Quality is our highest priority and it must be the priority of the audit profession. There should be no let up to the continuous improvement necessary to keep pace with the rapid changes occurring in the economy, and complexity that can come with judgement based auditing such as intangible assets.

We believe that measuring quality would benefit from broader, more balanced audit quality scorecards to deliver a more accurate picture of audit quality in Australia. We also agree with:

- ASIC's comment that there that there is no single solution to holistically improve audit quality. Rather, an evolving, dedicated focus is required on a continuing basis by all participants in the preparation of financial statements.
- The key recommendation in the report of the Parliamentary Joint Committee on Corporations and Financial Services in February 2019 was for greater consideration on how to best measure long term audit quality. The Committee called upon ASIC to devise and conduct, alongside or within its current Audit Inspection Program, a study which will generate results which are comparable over time to reflect changes in audit quality. We are supportive of ASIC's recent efforts in this area and will continue to work proactively to share relevant information to support this objective.

### **PwC's audit quality framework**

At PwC we are constantly focused on assessing the various factors that can disrupt or impact quality outcomes and design quality controls to effectively manage these factors.

Our actions to deliver and monitor audit quality are built into a quality control system that is designed to meet our ethical, professional, legal and regulatory responsibilities, and identify risks to audit quality early. The details of our approach including the way we monitor our performance internally and the role of external inspections is set out in detail in our annual Assurance Transparency Report.

Our quality control system complies with International Standards on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements”, also known as ISQC1. This standard includes the following six elements of quality control:

- leadership responsibilities for quality within the firm
- relevant ethical requirements
- acceptance and continuance of client relationships and specific engagements
- human resources
- engagement performance
- monitoring.

Some initiatives we are implementing to further strengthen our audit quality include:

- Establishing an independent Audit Quality Advisory Board comprising external members, to assist us to continually enhance our approach to audit quality. The Board will provide external challenge around audit quality at our firm, including the remuneration of audit partners. Its members will come from a range of roles relevant to the audit profession, including those with regulatory, auditing and standard setting experience. A summary of the Board’s observations will be made public in our annual Transparency Report.
- Increasing the number of internal reviews undertaken of audits whilst they are in progress
- Uplifting our investment in technology and tools to enable more use of automation and analysis of very large populations of data
- Changing audit partner assessment against a new scorecard in FY20. In addition to the results of internal and external inspection outcomes, this scorecard will more comprehensively and directly measure the quality of their work by incorporating feedback from their teams and audit committees, and the use they and their teams make of standardisation and automation tools and specialist expertise
- Reviewing all aspects of our learning and education program to ensure that these are informed by the findings of our audit quality reviews, and that scepticism and professional judgement continue to be developed as core skills of our people
- Improving transparency around our audit practice, through publishing our quality metrics as part of a balanced scorecard which includes ASIC’s audit inspection results, our internal audit quality inspection results, and number of restatements and adjustments to financial statements we have made with our clients.

## **ASIC quality inspections**

Over the past few years the public discussion regarding audit quality in Australia has centred primarily on one measurement: ASIC's audit quality inspection results. At an industry level, the findings in these results have remained broadly consistent over the past five years. In the latest review findings, ASIC found that in 24% of audit files reviewed from across 20 audit firms, the auditor did not obtain reasonable assurance that the financial report was free from material misstatement. This number is 20% for the six largest firms in Australia. Reducing this number is something the industry is intently focused on.

In the 12% of cases where ASIC identified concerns with PwC audits, there were no instances where the related financial statements required a subsequent restatement to market. Whilst ASIC's results are a critical component of assessing audit quality in Australia, ASIC points out that its inspection focus is on the riskiest areas of public company audits. This means that the results represent a very small percentage of the thousands of audits carried out each year and as such, caution is needed in extrapolating these results to the entire market.

We also support ASIC's plans to make public the individual findings from audit file inspections. However, we encourage them to enhance the information they publish by:

- indicating the relative severity of their reported findings
- include the audit firm;s perspectives on each finding and their action plans to address them.

Adding this information would provide stakeholders with better information to draw conclusions, both on the quality of audit and the firm's commitment to continuous improvement.

## **Innovation in audit**

We are also increasingly automating parts of the audit with innovative technology to eliminate the potential for human error. The PwC network has been recognised for our innovative efforts on this front, winning the International Accounting Bulletin's '*Audit Innovation of the Year*' Award in 2016, 2017 and 2019.

We believe that audits of the future will increasingly be delivered real-time and by new forms of collaboration between people and machines. In response we are investing in technology and digitally upskilling our people so we can combine talented people with innovation around data and automation. We are also increasing the use of specialists in key audit risk areas, drawing on skills from across our firm.

Whilst innovation assists audit quality, we note that global auditing standards have not kept pace with technological changes in audit methodology. We urge the global standard setters to innovate the audit standards in step with these changes to drive clarity for companies and audit firms alike.

## **Intangibles**

Reviewing the recoverability of intangible assets such as goodwill at a point in time is difficult for both preparers of financial statements and auditors because it involves assessment of the cash flows that are expected to be generated by the asset in the future. Such forward looking assessments involve considerable judgement in a range of matters and thus are inherently complex, and will be reviewed by audit inspectors and others at a later date with the benefit of hindsight. Some of our ASIC inspections findings in recent years have related to intangibles matters, and we monitor this area of auditing extensively.

While we are comfortable with the framework surrounding the auditing of intangible assets and our methodology, we have in recent years established a specific "Impairment Specialist Group" of reviewers, including valuation experts, to provide additional support to audit teams working through significant



judgemental assessments of intangible assets. The ability to maintain the Impairment Specialist Group is a good example of the need for a multidisciplinary firm. We remain committed to engaging with ASIC and understanding their suggestions for how the industry's work in this area can be strengthened.

## Section 5: Matters arising from Australian and international reviews of auditing

### Key points

- The key themes emerging from international auditing reviews cover audit quality, conflicts of interest, effectiveness of regulators, market choice, and the future role and scope of audit.
- In the Australian context, we:
  - recommend that an expectation gap review be undertaken, similar to that in the UK
  - agree with ASIC’s submission “If individual policy reforms suggested in the United Kingdom or elsewhere are considered in Australia we suggest they be carefully reviewed as to whether they promote audit quality in Australia”
  - we don’t support either mandatory firm rotation or operational separation.

The reviews of the Australian auditing sector and associated legislative changes over the past 15 years are summarised on page 11 of the submission from CAANZ.

### EU reforms

Internationally, the most substantive change to the regulation of audit in the period since 2010 was undertaken in the European Union (EU). The EU Audit legislation came into force in 2016, establishing requirements that included:

- mandatory rotation of audit firms
- restrictions on services that audit firms could provide to their Public Interest Entity<sup>10</sup> (PIE) audit clients and a cap on the monetary amount of these (70% of the audit fee averaged over four years)
- enhanced responsibilities for audit committees in regards to appointing auditors, and monitoring their performance and the services they provide outside audit.

The process of implementing this legislation in each EU member state has been finalised recently and it is still too early to draw conclusions about the outcome of the reforms. Mandatory audit firm rotation was introduced as a measure to reduce the concentration of large listed company audits within the Big 4 firms. There is no evidence that this has occurred and, to date, audit committees of PIEs have indicated a clear preference for using a Big 4 audit firm.

Some jurisdictions, notably in Africa and Latin America, have also implemented mandatory rotation of audit firms. However, this is not viewed as an appropriate regulatory step in most countries which have a long-standing and deep capital market. In these jurisdictions, the long-established position is that a strong system of corporate governance relies on audit committees taking responsibility for appointing auditors, monitoring their performance, and determining their tenure. Prescribing term limits undermines this important audit committee responsibility and the system of corporate governance. In addition to Australia, mandatory audit firm rotation has not been adopted in Canada, Japan, and the US.

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<sup>10</sup> For definition see <https://www.pwc.com/gx/en/about/assets/gra-scope-of-the-eu-audit-legislation-and-definitions-of-public-interest-entities.pdf>

## Areas of focus in the UK

As a member of the EU, the UK adopted the EU audit legislation and it has also undertaken comprehensive reviews of matters relating to audit during the past two years. The UK reviews have focused on three separate but related aspects:

- The Independent Review of the Financial Reporting Council's (FRC) roles, responsibilities and performance, led by Sir John Kingman ("the Kingman review"). The recommendations include replacing the regulator with a new regulatory body that is accountable to parliament and with stronger powers over companies, directors and auditors. The recommendations to strengthen the FRC and clarify its roles and responsibilities were supported by stakeholders. The government has completed its consultation on the proposals and some measures are in progress, including the appointment of new leadership of the FRC as it transitions to a new body.
- The Competition and Market Authority's (CMA) review of the audit market is primarily focusing on ways to limit the dominance of the Big 4 firms in the FTSE 350 audit market and expand mid-tier and smaller firms' participation. The CMA believes this is needed to sharpen the focus of the firms on audit and audit quality. The government's review and consultation on the recommendations from the CMA is continuing. The issues being explored are:
  - mandatory joint audit for FTSE 350 companies. This would be undertaken by one Big 4 firm and another firm, with joint responsibility
  - peer reviews of the audits of companies not subject to joint audit. This would be undertaken prior to audit report signing
  - enhanced regulatory oversight of audit committees in regard to the appointment and oversight of auditors
  - operational split between the audit and non-audit practices of the Big 4 firms
  - measures to mitigate the effects of distress or failure of a Big 4 firm.
- The Brydon review into the quality and effectiveness of audit. The terms of reference for this review are focused on the future of audit, including what assurance is needed and from whom, how this can be provided, and opportunities from technology and innovation to increase the effectiveness of audit. The review is expected to present findings by the end of December 2019.

Key themes emerging from discussions and debates on each of the UK reviews have pointed to the importance of considering the future scope of audit. In response, the UK government has determined that a holistic approach to reform is needed and that the recommendations of the Brydon review are central to establishing the right platform of change. Discussions underway in the context of the Brydon review include the importance of ensuring that the review of audit also brings clarity to the role and responsibilities of other participants in the corporate reporting system. High quality financial reporting relies on strong internal controls over the information included in reports. Commentators have advocated that the Brydon review consider implementing a strong framework of responsibility and reporting for a companies' internal controls, through a clear public attestation from management and the board of directors on the design and operating effectiveness of the company's internal controls. This could be similar to the framework established in the US under the 2002 Sarbanes-Oxley (SOX) Act.

## The Netherlands areas of focus

During 2019 a Ministerial Committee has been investigating how audit quality can be improved in the Netherlands in a sustainable manner and whether policy or regulatory changes might be warranted. The Committee released an interim report with recommendations for consultation on 1 October 2019. Consistent with the views emerging from the UK reviews, the Committee recommends expanding the role and scope of

audit, and reinforcing the company's primary responsibility for internal control and the financial report. The interim recommendations/comments include:

- The scope of audit should be expanded to cover more on business continuity and fraud.
- Company management should make a formal attestation on internal controls and this should be audited, following the US SOX approach.
- Audit firms should publish audit quality indicators.
- Audit quality should be the dominant criterion for audit partner remuneration.
- The majority of members of the management board of an audit firm should be auditors.
- Mandatory rotation of audit firms does not improve audit quality and limits competition, and so its continuance should be reviewed.
- A single independent regulator of the market should be established.

### **Australian context – lessons emerging from the global reviews**

The commentary included above represents a very brief summary of the global reviews, the issues being considered, and the views being expressed about them. We would be very pleased to elaborate on these with the Committee and share our reflections and insights on them. Our view of the key lessons for the current Australian environment is:

- **Expectation gap** – we recommend the creation of a task force to consult with representatives from audit firms, ASIC, listed companies, investors and oversight bodies to undertake an expectation gap review in Australia on the future scope of audit. Experience in the UK shows this initiative would benefit from government sponsorship.
- **Mandatory firm rotation (MFR)** – PwC Australia does not support the introduction of mandatory firm rotation in Australia. We believe it's important for audit committees to be accountable for the selection and review of their auditor, and we are seeing audit committees be active in this regard in Australia. For example, in the last five years there have been 38 changes of auditors at the ASX200 listed companies and we estimate at least another 17 ASX 200 companies have conducted competitive tenders in this time. MFR also reduces choice with the incumbent auditor not able to re-tender and another firm likely to be conflicted out due to the provision of restricted consulting services. The Australian system has a requirement for the mandatory rotation of the lead audit partner at least every five years, ensuring a fresh perspective on the audit. In our experience, audit committee membership and company executives also turnover over time. We support companies disclosing the length of tenure of their audit firm as well as lead partner tenure in their annual report.
- **Operational separation** – PwC Australia does not support operational separation of the Big 4 firms in the Australian market. Operational separation has been raised in the UK as a way to address the issue of perceived conflicts between the audit and consulting parts of the firm. At PwC Australia, we are evolving our approach to managing potential conflicts by strengthening our accreditation process for audit partners and refining our audit partner remuneration processes so they are structured in such a way that no audit partner is incentivised, evaluated or remunerated based on selling non-audit services to their audit clients. We have further strengthened oversight with the introduction of an audit quality advisory board, and we support a review of non-audit services for listed clients to consider whether further restricting these services would enhance trust. We also believe operationally separating the firm would negatively impact audit quality outcomes if it were to limit access to multidisciplinary capabilities, which are becoming increasingly important for the delivery of a quality audit. In today's world, the best talent seeks out jobs that have optionality in career paths, and joining a multidisciplinary firm with a global footprint is a significant enabler for us to attract the best and brightest minds. We also believe the future scope of audit

is likely to broaden considerably, with the skills that reside outside the traditional audit business becoming increasingly important to meet stakeholder expectations.

- Audit quality should be the focus of the audit profession. Any changes to the regulatory framework should enable this by encouraging innovation, and significant investment in technology and the capability and expertise of the audit firms' professional staff.
- Consideration of conflicts of interest and auditor independence needs to be an ongoing focus area. As community expectations change over time, regulatory and firm-specific approaches to address these matters and related disclosures need to keep pace at regular intervals.

## Section 6 and 7: Changes in the role of audit and the scope of audit products and the role and effectiveness of audit in detecting and reporting fraud and misconduct

### Key points

- Narrowing the expectation gap and evolving the audit to meet the rapidly changing business landscape and its inherent risks is a sizeable challenge and one that will require all stakeholders to contribute to what the future audit should and can encompass.
- Some areas for consideration by a task force could include:
  - assurance mapping to tailor additional assurance for each company, depending on the needs of its stakeholders
  - strengthening reporting and assurance on internal controls
  - improving disclosure on the risks of fraud, future prospects and business model risks
  - a level of assurance around a broad range of more forward-looking company information such as management discussion and analysis, the Chairman’s review, CEO report, and Corporate Governance Statement included in the annual report.

### The need to evolve the audit

As noted in Section 5, we recommend the creation of a task force to consult with representatives from audit firms, ASIC, listed companies, investors, and oversight bodies to undertake an *expectation gap* review on the future scope of audit.

Some insight on what might emerge from a similar Australian review is available from a study undertaken by PwC UK<sup>11</sup>. Aspects we consider to be of particular relevance in an Australian context and that could be considered by the task force are outlined below:

#### 1. Assurance mapping

The proposal from the PwC UK publication states *“The statutory audit is just one source of assurance over the many different risks facing a company. Because the types of risks facing a business—as well as the level of assurance each company’s stakeholders want about those risks—vary so widely, there is a need for a more flexible regime”*.

A way to ensure all sources of assurance over a company’s principal risks are considered, financial or not, would be to make it an explicit responsibility for the audit committee to determine the level and type of assurance needed by their company’s stakeholders, and to present it to them and discuss it at the beginning of the reporting cycle.

PwC Australia sees merit in exploring this assurance mapping approach. It would enable the range and type of assurance sought over each area to be tailored individually by each company, depending on the needs of its stakeholders. It would also provide clarity over the boundary between the statutory audit and assurance over other matters. Continued investment in technology would be essential to enable the audit to enable the provision of assurance over new areas.

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<sup>11</sup> <https://www.pwc.co.uk/who-we-are/future-of-audit/pwc-future-of-audit-summary-report-july-2019.pdf>

## 2. Expanding the scope of audit

Addressing the expectation gap in part relies on exploring which further areas could be covered by expanding the scope of audit, what would be the trade-offs involved, and whether there are other ways to address the gap. We consider the following to be of particular relevance in Australia:

Topics to consider in expanding audit's scope	Considerations
<p><b>Internal controls</b></p> <ul style="list-style-type: none"> <li>A strong framework of responsibility and reporting in respect of companies' internal controls is important to minimise financial reporting failures and mitigate fraud. Reporting on internal controls is not mandated in Australia.</li> </ul>	<ul style="list-style-type: none"> <li>One way to achieve this is clear, public reporting from management on the design and operating effectiveness of the company's internal controls over financial reporting, underpinned by a clearly communicated expectation of the level of rigour and diligence applied in making the declaration; and an accountability mechanism with consequences for directors and management in the event of non-compliance.</li> <li>The Australian Securities Exchange (ASX) Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd Edition<sup>12</sup>) goes beyond the requirements set out in the Corporations Act regarding the company's management declaration by recommending that: <ul style="list-style-type: none"> <li><i>"The board of a listed entity should...receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and <b>that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.</b>"</i></li> </ul> <p>This voluntary recommendation for listed companies could be more formally integrated into legal and regulatory frameworks to strengthen the oversight of internal controls.</p> </li> <li>While the US Sarbanes-Oxley regime – which focuses on directors' responsibility for internal control over financial reporting – represents a useful mode to consider, it may be appropriate to consider controls over additional risks as part of exploring these issues in Australia.</li> <li>Another item to consider is whether any report produced report would be assured by the auditor</li> </ul>

<sup>12</sup> <https://www.asx.com.au/documents/asx-compliance/cgc-principles-and-recommendations-3rd-edn.pdf>

Topics to consider in expanding audit's scope	Considerations
<p><b>Fraud</b></p> <ul style="list-style-type: none"> <li>• One of the biggest areas of frustration expressed by stakeholders with regards to audit occurs when a fraud is uncovered at a company, even though it may be immaterial, and the auditors have not identified it as part of their audit processes</li> <li>• It is part of an auditor's responsibility to identify and assess the risks of material misstatement in a company's financial reports, either through error or fraud</li> </ul>	<ul style="list-style-type: none"> <li>• In our view it is unlikely that a proportionate approach to audit could fully eliminate the risk of fraud</li> <li>• Although auditors consider this risk, there remains a risk that fraud, both material and immaterial, may not be detected. This is because fraud may involve sophisticated and carefully organised schemes designed to conceal it, such as forgery, deliberate failure to record transactions, or intentional misrepresentations being made to the auditor</li> <li>• One suggestion to explore is for companies and auditors to report more about the risks of fraud facing a company, the controls in place to mitigate those risks, and the respective responsibilities of management, directors and auditors</li> <li>• Technology is also becoming increasingly helpful in identifying anomalies that may uncover fraud. Detailed data analytics and artificial intelligence can be used to detect anomalous data patterns or unexpected relationships, identify audit risks, and help auditors develop effective responses</li> <li>• Any broadening of auditors' responsibilities with regard to fraud, through legislation or standard-setting should be combined with clarification of directors' accountability for managing fraud risks.</li> </ul>
<p><b>Going concern</b></p> <ul style="list-style-type: none"> <li>• In any competitive and changing market, it's inevitable that companies will fail but the recent corporate failures in markets have significantly undermined trust in corporate reporting and audit</li> <li>• For the purposes of financial reporting, directors consider whether the going concern basis of accounting is the appropriate basis for preparing the financial statements, and whether companies can pay their debts as and when they fall due; but questions have been raised about whether more information should be shared on a company's business model or future viability</li> </ul>	<ul style="list-style-type: none"> <li>• We see merit in considering whether a more deliberate analysis on going concern could be prepared and reported by the company and then be audited. We also see merit in exploring whether auditors should be required to always include a key audit matter on going concern in their audit reports to provide context about the auditor's views</li> <li>• A proposal to require companies and auditors to provide more insight on going concern could involve: <ul style="list-style-type: none"> <li>– Creating a single, coherent piece of company reporting that provides more insight into the future prospects of the company – including the scenarios in which the business model could fail</li> <li>– The reporting would focus on the next 12 months with a more qualitative assessment of business model risks that could crystallise beyond that period</li> <li>– Auditors could continue to provide assurance on the detailed going concern analysis reported by the company but could also include a discussion on going concern in their audit reports to provide context about the auditor's views on uncertainties facing a company</li> </ul> </li> </ul>



Topics to consider in expanding audit's scope	Considerations
<p><b>Additional information</b></p> <ul style="list-style-type: none"> <li>• Today's audit primarily focuses on historical financial information. It does not cover other information that is included in a company's annual report, such as management discussion and analysis, the Chairman's review, CEO report, and Corporate Governance Statement. It also does not cover any future focussed information such as statements regarding future financial performance</li> <li>• Some stakeholders believe this information is already included in the statutory audit</li> </ul>	<ul style="list-style-type: none"> <li>• On an individual company basis, all these matters could be considered as part of the proposal for the assurance mapping, with audit committees determining what level of assurance is needed</li> <li>• As corporate reporting evolves to include additional information, such as critical performance measures that are not part of today's financial reports, consideration could be given to what of this information should be audited</li> <li>• Related aspects to consider could be what changes would need to be made to current auditing standards, laws and professional liability arrangements</li> </ul>

**Section 8: Effectiveness and appropriateness of legislation, regulation and licensing**

We have no specific comments.

**Section 9: The extent of regulatory relief provided by the Australian Securities and Investments Commission through instruments and waivers**

We have no specific comments.

## **Section 10: Adequacy and performance of regulatory, standards, disciplinary and other bodies**

### **Key points**

- We are subject to a range of regulatory and internal frameworks that hold our audit business and our firm to account. As technology and community expectations continue to evolve, standard setters and regulators need to take a continuous improvement approach to the regulatory framework and industry standards in Australia.

The regulatory framework for accounting and audit in Australia has remained stable over a long period. Accounting and auditing standards are approved by boards appointed by the Financial Reporting Council, using standards developed by international standard setters. These standards are established as legislative instruments. ASIC has a central role in this framework; under the Corporations Act, it has oversight and enforcement responsibility for companies, directors and auditors. Where our clients are registered in jurisdictions outside of Australia, we also apply the requirement of the frameworks established in those jurisdictions and our work is subject to review by international regulators; for example, our auditing of Securities and Exchange Commission (SEC) regulated clients is subject to review by the PCAOB.

We note in our submission that audit and the related regulatory, standards and disciplinary oversight of the profession all sit in the broader context of an efficient and effective capital market. Innovations in technology mean the regulatory framework for financial reporting and audit will need to transform at pace with technology disruption. Audit firms have already made significant progress in piloting and applying technology tools, but scope for further innovation remains large. An example of change is that regulators in international jurisdictions are increasingly requiring companies to lodge financial reports in XBRL format to optimise the ability of regulators and others to analyse the information included in them. We support ASIC taking this approach.

Confidence and trust in the system will be undermined if the regulatory framework does not keep pace with technology. This will require continuous engagement between standard setters, regulators and auditors to ensure the regulatory framework and standards allow for technological innovation that enhances quality.

## **Section 11: Effectiveness of enforcement by regulators**

We have no specific comments.

## **Section 12: Other**

We have no specific comments.

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