INFORMATION SHEET 184

Audit transparency reports

This information sheet summarises the requirements for audit transparency reports (transparency reports) as set out in s332–332G of the *Corporations Act 2001* (Corporations Act). It explains:

- what is a transparency report and why these reports are important
- when the report must be published
- what information must or may be included in a transparency report
- whether information can be included from reviews by ASIC and other bodies
- what happens if a report contains misleading information
- what relief is available from the transparency report requirements.

What is a transparency report?

Under s322 of the Corporations Act, all individual auditors, audit firms and authorised audit companies (collectively, auditors) must publish a transparency report on their website if they have conducted audits under Div 3 of Pt 2M.3 of any combination of 10 or more of the following bodies in the past reporting year (i.e. the 12 months commencing on 1 July):

- listed companies
- listed registered schemes
- authorised deposit-taking institutions, as defined in s9 of the *Banking Act 1959*
- bodies mentioned in s3(2)(c) or 3(2)(e) of the *Australian Prudential Regulation Authority Act 1998*
- any other bodies prescribed by the regulations for this purpose.

If a partnership is part of a network of affiliated audit firms, the requirement applies to each individual partnership (i.e. each partnership must prepare and lodge a separate transparency report).

Why are transparency reports important?

Auditors are 'gatekeepers' and have a critical role in ensuring that Australian investors can be confident and informed. High-quality audits support the quality of financial reports, promoting confident and informed investors and fair and efficient markets.

Transparency reports help to inform the market about audit firms and audit quality. Transparency about indicators of audit quality may encourage audit firms to increase their focus on audit quality and may also provide information to assist those responsible for selecting an audit firm.

When must the report be published?

Transparency reports must be published annually on the auditor's website for the 12 months commencing on 1 July, within four months after the end of the reporting year. The first transparency report is required for the year ending 30 June 2013. The report must be lodged with ASIC before being published on the auditor's website.

What information must be included?

A transparency report must contain the information prescribed by the regulations: see s332B(1) of the Corporations Act, and reg 2M.4A and Pt 3 of Sch 7A in the Corporations Regulations 2001. This information is summarised in Table 1.

A transparency report may omit information otherwise required if the inclusion of the information is likely to result in unreasonable prejudice to the auditor. If material is omitted, the report must state this: see s332(2). Given the nature of the information required, we expect that information would rarely be omitted on the basis of this exemption.

Table 1: Information that must be included in a transparency report

Prescribed information for all auditors that are required to publish transparency reports	The report must include: • if the auditor belongs to a network, a description of: – the network – the legal arrangements of the network – the structural arrangements of the network • a description of the auditor's internal quality control system • a statement that sets out the auditor's independence practices in the relevant reporting year • the name of each body that is authorised to review the auditor (e.g. ASIC or a professional accounting body) and the date of the most recent review of the auditor conducted by the body • the names of the relevant bodies in s322 of the Corporations Act for which the auditor conducted an audit under Div 3 of Pt 2M.3 in the relevant reporting year • financial information for the auditor that relates to the relevant reporting year, including: – total revenue – revenue relating to audits of financial statements conducted by the auditor and other services provided by the auditor.
Additional information for audit firms or authorised audit companies that are required to publish transparency reports	For audit firms or authorised audit companies, the report must also include: • a description of the firm or company's: – legal structure – ownership – governance structure • a statement by the firm's administrative body or management body (or the company's board of directors) on the effectiveness of the functioning of the internal quality control system in the relevant reporting year • the date on which the firm or company most recently conducted an internal review of its independence compliance • a statement about the firm or company's policy on the minimum amount and nature of continuing or other professional education that professional members of an audit team must undertake during the relevant reporting year • information about the basis for remuneration of the firm's partners or the company's directors.

What other information may be voluntarily included?

Auditors may voluntarily include additional information about audit quality in a transparency report. Such information must not be presented in a misleading manner.

Our view is that audit quality refers to any matter that contributes to the auditor obtaining reasonable assurance that the financial report is not materially misstated, and that any matter detected is appropriately addressed.

Table 2 sets out some examples of such information.

Table 2: Additional information that may be included in a transparency report

Network policy monitoring	If the auditor belongs to a network, the report may include information about the degree to which the network sets policy and monitors compliance and structural arrangements in the network, including the degree of authority the network has over the audit firm.
Actions to improve and maintain audit quality	The report may include information about how the auditor (for example): • promotes, evaluates and monitors professional scepticism and compliance with auditing standards • promotes a culture of audit quality (e.g. messages from leadership focusing on audit quality, education initiatives, key focuses in quality reviews, and encouragement of consultation on complex audit issues) • ensures that partners/directors, staff and experts with appropriate experience and expertise are assigned to audit engagements having regard to, for example, workload, technical competence, and audit, industry and other relevant experience • approaches supervision and review, including the extent of partner/director involvement in working with audit teams in the planning and execution of audits, and the extent of real-time or post-completion quality reviews of engagements • holds partners/directors and leadership accountable for audit quality, including how performance is measured on audit quality, how such performance is assessed, and the extent to which this affects remuneration.
Internal indicators of audit quality	The report may include indicators of audit quality used by the firm. However, if quantitative input measures of audit quality are referred to in a transparency report, the reasons why those measures are considered appropriate, the impact of measuring each particular aspect of audit quality, any limitations of those measures, and the results of applying such measures should be provided. Limitations might include matters such as: • the measures do not directly measure the quality of the audits performed • a measure typically provides information relating to only one aspect of the inputs to achieving quality audits and there are many factors affecting audit quality • different quantitative results for a particular measure may be appropriate in different circumstances (e.g. different partner-to-staff ratios may be appropriate depending on the factors such as the nature, size and complexity of audit engagements). Notes: Measures should be presented on a comparable basis from year to year. If the auditor chooses to discontinue, amend or replace any measure previously included in a transparency report, the previous measure should generally also be included with the reasons for the change.

Findings from our inspections	The report may include the firm's actions to address overall themes about the quality of audits at firms generally, as identified in the most recent public audit firm inspection report issued by ASIC. For example, the overall themes in Report 317 *Audit inspection program report for 2011–12* (REP 317) concerned the sufficiency and appropriateness of audit evidence, the application of professional scepticism, and the extent of reliance that can be placed on experts and other auditors. REP 317 also referred to the consistency of audit execution.
Findings from external reviews	The report may include areas for improvement derived from reviews by other relevant external bodies on audit quality—for example: • significant recommendations to improve education, quality control, auditor independence, compliance with auditing standards, professional scepticism, sufficiency and appropriateness of audit evidence, the use of and reliance on experts and other auditors, and other matters • remedial actions undertaken by the auditor in response to the review. Generally, a report should not refer to the external review or the source of the areas for improvement. The permission or consent of any external body should be obtained before specifically referring in the transparency report to a review by an external body. Any limitations in the scope of the external body's review should be stated in the report.

We are continuing to monitor developments in relation to reporting information about individual firm audit quality.

What about information from reviews by ASIC and other bodies?

Under the Corporations Act, transparency reports are only required to give the name of each body that is authorised to review the auditor (e.g. ASIC or a professional accounting body) and the date of the most recent review conducted by the body, but not the findings from such reviews.

To reduce the risk that a transparency report is misleading, it should include a statement that the reader should not make any assumptions about the scope of, or findings from, any ASIC review. A similar statement may be necessary for reviews by other external bodies.

After inspecting an audit firm, we provide a private report to the firm outlining the findings from the inspection and the suggested remedial actions, if any. The report focuses on areas for improvement in audit quality and does not include an overall ranking of audit quality against other firms.

Confidentiality provisions in s127 of the *Australian Securities and Investments Commission Act* limit our ability to release the results of inspections of individual audit firms.

Firms may distribute the inspection report within their national or international networks. However, it is not intended to be distributed to any other party, or quoted or summarised by the firm in transparency reports or other publications. If the firm wishes to share any findings in the inspection report with other parties (e.g. in a transparency report), it should notify us in writing at least two business days before doing so.

Firms may refer to areas for improvement derived from our private reports on the firm without identifying the source of those matters. In limited cases, we may consent to a transparency report referring to specific areas for improvement identified in our most recent inspection of an audit firm. When seeking consent, a firm should provide the proposed text for inclusion in the transparency report to ASIC's Senior Executive Leader, Financial Reporting and Audit.

We are continuing to monitor international developments on how the findings from audit oversight by regulators are communicated and published.

What happens if a report contains misleading information?

A person is guilty of an offence if, in a document required by the Corporations Act or lodged with ASIC, they make or authorise the making of a statement that to the person's knowledge is false or misleading in a material particular, or the person omits or authorises the omission of any matter or thing without which the document is to their knowledge misleading in a material respect: see s1308(2).

We believe that, to reduce the risk that a transparency report is misleading, it should present information that:

- is clear, useful and presented in sufficient detail to be meaningful to the likely users of the report
- is based on fact
- is unbiased and not oriented towards marketing or selling services
- is concise, specific to the firm and avoids the use of boilerplate language
- is timely, accurate and complete
- if any quantitative input indicators relating to audit quality are provided, sufficiently explains the limitations of those indicators
- if any findings from audit quality reviews are included, provides a true depiction of those findings (i.e. results should not be presented to give a more favourable picture than is reported by the reviewers, whether through selective reporting of results or other means)
- if any remedial actions are outlined in response to findings about improving audit quality, makes it sufficiently clear that the actions may not be directly comparable with other firms because of differences in circumstances (e.g. some findings may be specific to a firm).

We intend to review selected transparency reports. We may seek further information and explanations where, for example, aspects of a report appear to be inconsistent with the knowledge and experience obtained from our inspections of audit firms and other activities.

What relief is available?

If an auditor lodges with ASIC a written application before the deadline for publishing a transparency report, we may make an order:

- extending the deadline (see s332C), or
- relieving the auditor from compliance with all or certain specified requirements for the publication, lodgement and content of a transparency report (see s332D).

The application must be signed in accordance with the requirements of the Corporations Act: see Regulatory Guide 51 *Applications for relief* (RG 51).

Important notice

Please note that this information sheet is a summary giving you the basic information you need. It does not cover the whole of the relevant law and is not a substitute for professional advice.

You should also note that, because this information sheet avoids legal language wherever possible, there may be some generalisations about the application of the law. Some provisions of the law referred to have exceptions or important qualifications. In most cases, your particular circumstances need to be taken into account when determining how the law applies to you.

For further information, contact ASIC on **1300 300 630**.