

9 September 2016

Mr Doug Niven
Senior Executive Leader, Financial Reporting and Audit
Australian Securities and Investments Commission
GPO Box 9827
Sydney NSW 2001

By email: douglas.niven@asic.gov.au

Dear Doug,

Submission on Consultation Paper 265 *Communicating audit findings to directors, audit committees or senior managers*

Nexia Australia welcomes the opportunity to provide ASIC with our comments on Consultation Paper 265 *Communicating audit findings to directors, audit committees or senior managers*.

Nexia Australia represents the Nexia network firms in Australia and New Zealand comprising independent Chartered Accountancy firms located in Sydney, Melbourne, Brisbane, Canberra, Adelaide, Darwin and Perth. Nexia Australia firms service clients from publicly listed entities, small to medium enterprises, large private company groups, and not-for-profit entities.

In addition to our specific responses to ASIC's proposals included in the attached appendix, we also make the following general observations and comments.

- For the avoidance of doubt, we suggest that the final policy document should make it clear that any communication by ASIC to the audit client on audit findings should only occur after those findings have been finalised and agreed with the auditor. We are concerned that any communication by ASIC before the any matters arising from an audit inspection have been finalised may misinform or misrepresent the inspection findings and may prejudice the auditor.
- Subject to our responses attached, we agree with the proposal to communicate to the directors and the audit committee, but we disagree with the proposal that ASIC's communication extend to senior managers of the entity.

Should you wish to discuss any aspects of our submission, please do not hesitate to contact me.

Sincerely

Nexia Australia Pty Ltd



Martin Olde
Technical Director

Sydney Office

Level 16, 1 Market Street, Sydney NSW 2000
PO Box H195, Australia Square NSW 1215
p +61 2 9251 4600, f +61 2 9251 7138
info@nxiacourt.com.au, www.nexia.com.au

Independent member of Nexia International



Request for Specific Comments

Questions	Response
B1Q1 Do you have any comments on our proposed criteria set out in Table 1?	<p data-bbox="786 400 909 421"><i>Criteria 1 –</i></p> <p data-bbox="786 443 1939 494">We have some concerns regarding the proposal to disclose to the entity “specific information from the entity’s records contained on the audit files”.</p> <p data-bbox="786 517 2018 568">We have no specific concern if ASIC intends only to refer to a copy of the company’s own document, eg, a copy of a contract contained in the audit file.</p> <p data-bbox="786 590 2018 692">However, as drafted, the criteria appears quite wide and we disagree with the proposal if ASIC intends to provide an audit client with auditor prepared documentation that contains “specific information from the entity’s records” such as audit plans, audit documentation evidencing audit procedures, client prepared documents that also contain notations made by the auditor, etc.</p> <p data-bbox="786 759 898 780"><i>Criteria 2 -</i></p> <p data-bbox="786 802 1211 823">We have no concerns with the proposal.</p> <p data-bbox="786 890 898 911"><i>Criteria 3 -</i></p> <p data-bbox="786 933 1939 984">We accept that ASIC may inform an entity where it intends to take enforcement action in relation to an entity’s auditor.</p> <p data-bbox="786 1007 1962 1083">However, we are concerned that suggesting that the entity could take appropriate action such as seeking the resignation or removal of the auditor has the potential to deny the auditor natural justice and the presumption of innocence.</p> <p data-bbox="786 1106 1928 1157">Consequently, we suggest deleting the words “so that they can consider appropriate action (e.g. seeking the resignation or removal of the auditor)”.</p> <p data-bbox="786 1224 898 1244"><i>Criteria 4 -</i></p> <p data-bbox="786 1267 1211 1287">We have no concerns with the proposal.</p>

Questions	Response
	<p><i>Criteria 5 –</i></p> <p>We consider that criteria 5(e) represents a mitigating factor that may affect a judgement whether sufficient appropriate audit evidence has been obtained in relation to a specific matter.</p> <p>For the avoidance of doubt, we suggest that criteria 5(e) clarify that ASIC does not intend to communicate a matter to an entity in cases where, in ASIC’s opinion, “genuine uncertainty [exists] about the level of audit work required by the auditing standards or accounting standards”. To do so may give the entity the impression that an audit deficiency exists in relation to a matter for which there is no clear audit guidance.</p>
B1Q2 Are there any additional criteria that we should consider including?	We suggest that ASIC clarify that it does not intend to communicate a matter to an entity where it appears that the matter arises from the auditor being misled, through act or omission, by the entity.
B2Q1 Do you agree that we should let directors know that we will be reviewing audit files relating to the entity as part of a routine audit firm inspection?	We have no concerns with the proposal.
B2Q2 Should we also let directors of an audited entity know that we will be reviewing audit files relating to the entity as part of a surveillance activity where we already have reason for concern about the adequacy of the audit?	<p>No.</p> <p>Whilst we have no concerns with the proposal to advise directors that ASIC will be reviewing audit files relating to the entity as part of a routine audit firm inspection, we are concerned that notification based on ASIC’s “concerns” could create uncertainty in the mind of the client and has the potential to prejudice the auditor’s competency when ASIC has no evidence of an identified audit deficiency.</p> <p>We believe that ASIC communicating its suspicion of audit deficiencies before it undertakes an inspection and releases its findings would unreasonably prejudice the auditor.</p>