



ASIC

Australian Securities & Investments Commission

Parliamentary Joint Committee on Corporations and Financial Services – Statement on audit quality by ASIC Commissioner John Price

Statement by John Price, Commissioner, Australian Securities and Investments Commission

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16 February 2018

Thank you to the Committee for the opportunity to appear today. I am John Price, a Commissioner at ASIC and I am here with ASIC Senior Executive Doug Niven.

At the end of June 2017 ASIC issued a public report on its most recent findings about audit quality. We reviewed 93 audit files on a targeted basis during the 18 months to 31 December 2016 to form the basis of our report. In our view, in 25% of the 390 key audit areas that we reviewed across the 93 audit files at firms of different sizes, auditors did not obtain reasonable assurance that the financial report as a whole was free of material misstatement.

While we reviewed these 93 files, there are about 2,300 listed entities in Australia and more than 20,000 listed and unlisted entities that are required to have audits under the *Corporations Act 2001*. In other words, the sample size for our audit review work is small and targeted at areas where we believe there might be problems. For these reasons great care is needed in generalising the outcomes from our report.

The result of our work does, however, suggest further attention is required to improve audit quality. Further, the level of adverse findings from our limited sample and the nature of concerns from our findings are very consistent with those of international regulators with responsibility for audit oversight. This also suggests our ongoing attention to this area is warranted.

ASIC continues to work to improve audit quality through education, inspections and surveillances and enforcement actions. Improving audit quality is a matter needing collective action by various parties in the financial reporting chain in order to be successful. We continue to work closely with the largest 6 audit firms to suggest improvements to their own internal action plans on audit quality. We are also working with other parties including the Financial Reporting Council, auditing and ethics standard setters, audit committees, international regulators, and accounting bodies in order to improve audit quality.

ASIC also continues to address significant cases of deficiencies in audit work through enforcement activity. We have obtained enforcement outcomes against at least 20 registered company auditors over the last 6 years and against 33 self-managed superannuation fund (SMSF) auditors. In August 2016, we also cancelled the registration of a further 133 SMSF auditors who did not lodge annual statements with ASIC after repeated reminders.

Finally, I should note that even where ASIC believes audit quality is not at the required standard on a particular matter it does not follow that the financial reports being audited are materially wrong. Separate from our audit work, ASIC reviews about 300 sets of financial reports of listed entities and public interest entities per year. We consistently require only about 4% of those to be restated.

I hope that this information can assist your consideration of audit quality. We are now happy to take any questions.