

21/02/2021

Mr Doug Niven  
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Dear Doug

**Re: Consultation Paper CP 352 Communicating audit findings to directors, audit committees or senior managers**

Deloitte Touche Tohmatsu is pleased to respond to the Australian Securities & Investments Commission's Consultation Paper 352: Communicating audit findings to directors, audit committees or senior managers (CP 352) and the Draft Regulatory Guide 260 Communicating findings from audit files to directors, audit committees or senior managers (RG 260).

We are supportive of ASIC's efforts to increase transparency in relation to the scope and results of its audit inspection program and provide the following comments on CP 352 and RG 260 with the goal of working collaboratively with ASIC. We believe that increased transparency to directors, audit committees or senior managers (the Entity) will drive greater accountability for auditors, entities, and ASIC.

Before responding to the specific questions raised in CP 352, we make the following comments on CP 352 and RG 260.

Process to Communicate

As noted in paragraph 3 of CP 352, section 127(2D) of the ASIC Act allows the ASIC Chairperson to communicate specific financial reporting and audit quality findings identified from reviews of audit files directly to directors, audit committees or senior managers of a company, responsible entity or disclosing entity to help the entity to properly manage its affairs. Section 127(5) of the ASIC act allows the ASIC Chairperson to delegate some of his or her functions and powers under section 127 to a member or staff member. We understand that as the sections listed in section 127(5) do not include section 127(2D) that the ASIC Chairperson will be required to approve each disclosure of information.

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It is also our understanding that in accordance with section 127(3A), of the ASIC Act, if we were to consent to the disclosure of the information that this would allow ASIC to share the findings with the Entity without the need for the Chairperson to make the disclosure.

As we have discussed previously, we keep entities updated during the course of the ASIC file review and verbally communicate the result of ASIC's file review to the audit committee. In order to ease the administrative burden on the ASIC Chairperson, effective immediately, once a file inspection is finalised and the Comment Form has been provided to us, Deloitte is committed to sharing it with the Entity. We will do so after providing ASIC with at least two business days notice as required based on the current text in the Comment Forms. We will copy the ASIC Chief Accountant on the email when we send the Comment Form to the Entity.

### Form and content of communication

We are supportive of ASIC's efforts to increase transparency in relation to the scope and results of its audit inspection program. We understand that it is ASIC's intention that the Comment Form provided to the Entity would be the same Comment Form that is agreed with and provided to the firm at the conclusion of the file review, we strongly support this approach. As Comment Forms will now be shared more broadly, and the recipients will likely include individuals who do not have an auditing background, it is very important that they contain meaningful and relevant disclosures. We understand that you are currently considering the appropriate format for the Comment Form and look forward to engaging with you further in this regard. During this process we believe that it would be beneficial to seek input from regulators in those jurisdictions where there is reporting of audit inspection findings to audit committees, for example the UK, on the form and content of the communication and any feedback that those regulators have received from audit committees on them.

RG 260.45 states you will communicate matters that you have identified about "the quality of an audit" however we note that the matters listed in CP 352, paragraph 11, appear focussed on those areas where ASIC had negative findings in relation to the quality of the audit. We appreciate that the focus of ASIC's inspection program is on whether the auditor complied with Australia Auditing Standards, however, if during a file inspection ASIC were to identify areas of good practice that enhance audit quality, including this fact in the Comment Form would be in the public interest, as it would allow us to share the details with our practitioners, thereby increasing their capacity to act, and also assist the Entity in understanding where things are done well and help build confidence in the audit process. Would it be possible for the Comment Form to report Key Audit Areas (KAA) with Findings, KAA with no findings and good practices that enhance audit quality?

### Timing of Communication

RG 260 paragraphs 33 to 42, outline ASIC's approach to communicating with the Entity, if during the file review ASIC has concerns that a financial report may be materially misstated. In these circumstances, we understand the need for this communication to be done in a timely manner and prior to the finalisation of the file review in order to allow the entity to respond to ASIC's concerns. If during the course of a file review, we became aware of an issue relating to a potential misstatement of a financial report, we would immediately make the Entity aware of this fact so that appropriate action, including relevant ASX announcements, can be taken in a timely manner.

RG 260.45 states that you intend to communicate the matters identified from reviews of audit files about the quality of an audit to the Entity as each Comment Form has been finalised with the relevant firm. We are supportive of the Entity receiving the Comment Form and as noted above we are committed to providing it to them after providing you with two business days notice, thereby negating the need to ASIC to do so.

RG 260.47, states "Delaying communications with directors may not be in the interests of audit quality, particularly where a past audit should be remediated or a subsequent audit may be affected". We would like to understand more about the types of matters that ASIC envisages would be communicated pursuant to this paragraph.

*B1Q1: Should any of the types of audit findings outlined in paragraph 11 not be communicated?*

As stated in paragraph 3 of CP 352 the ASIC Act allows the ASIC Chairperson to communicate inspection findings to “to help the entity to properly manage its affairs” Paragraph 11, sets out the matters that ASIC proposes to disclose to the Entity, and 11 (b) outlines ASIC’s intent to include the disclosure of circumstances where ASIC has concluded reasonable assurance was obtained that the financial report for the current year was free of material misstatement, but where ASIC considers that the audit work should be improved in future years. We question whether this is necessary to assist the Entity to properly manage its affairs.

In Paragraph 11(d) it is stated that ASIC may communicate any other matter ASIC considers should be drawn to the attention of the directors or audit committee of the audited entity. We note that neither CP 352 nor RG 260, provide further information on the types of matters that ASIC consider would fall under this category. We would welcome further dialogue with you as to the types of matters that you believe may warrant communication under this category.

*B1Q2: Are there any additional types of audit findings that should be communicated?*

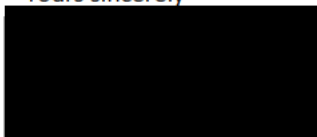
See earlier comment about the possibility of including good practices that enhance audit quality that ASIC has identified in Comment Forms.

*B1Q3: Do you have any other comments on the types of audit quality findings proposed to be communicated as set out in paragraph 11?*

We have nothing further to add.

If you have any questions concerning our comments, please contact either myself on [REDACTED], Jacques Strydom on [REDACTED] [REDACTED] or John Leotta on [REDACTED] [REDACTED].

Yours sincerely



Joanne Gorton  
Managing Partner, Audit & Assurance