



ASIC

Australian Securities &
Investments Commission

REPORT 730

Response to submissions on CP 352 Communicating audit findings to directors, audit committees or senior managers

July 2022

About this report

This report highlights the key issues that arose out of the submissions received on [Consultation Paper 352](#) *Communicating audit findings to directors, audit committees or senior managers* (CP 352) and details our responses to those issues.

About ASIC regulatory documents

In administering legislation ASIC issues the following types of regulatory documents.

Consultation papers: seek feedback from stakeholders on matters ASIC is considering, such as proposed relief or proposed regulatory guidance.

Regulatory guides: give guidance to regulated entities by:

- explaining when and how ASIC will exercise specific powers under legislation (primarily the Corporations Act)
- explaining how ASIC interprets the law
- describing the principles underlying ASIC's approach
- giving practical guidance (e.g. describing the steps of a process such as applying for a licence or giving practical examples of how regulated entities may decide to meet their obligations).

Information sheets: provide concise guidance on a specific process or compliance issue or an overview of detailed guidance.

Reports: describe ASIC compliance or relief activity or the results of a research project.

Disclaimer

This report does not constitute legal advice. We encourage you to seek your own professional advice to find out how the Corporations Act and other applicable laws apply to you, as it is your responsibility to determine your obligations.

This report does not contain ASIC policy. Please see [Regulatory Guide 260](#) *Communicating findings from audit files to directors, audit committees or senior managers* (RG 260).

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A Overview/Consultation process

- 1 In [Consultation Paper 352](#) *Communicating audit findings to directors, audit committees or senior managers* (CP 352), we consulted on proposals to communicate negative audit quality findings from our reviews of audit files to directors of the entities audited on a routine basis.
- 2 Our current practice is to communicate audit quality findings from our reviews of audits to directors or audit committees of entities on an exception basis.
- 3 This report highlights the key matters that arose out of the submissions received on CP 352 and our responses to those matters.
- 4 This report is not meant to be a comprehensive summary of all responses received. It is also not meant to be a detailed report on every question from CP 352. We have limited this report to the key matters.
- 5 We received six non-confidential responses to CP 352 from industry and industry representatives. We received no confidential submissions to CP 352. We are grateful to these respondents for taking the time to send us their comments.
- 6 For a list of the non-confidential respondents to CP 352, see the appendix. Copies of these submissions are currently on the [CP 352 page](#) of the ASIC website.

Responses to consultation

- 7 Each of the submissions supported the proposal to communicate negative audit quality findings on a routine basis directly to directors of audited entities.
- 8 The main issues raised by respondents related to:
 - (a) the types of matters that we would communicate to directors;
 - (b) the ability of audit firms to appeal the matters to be communicated to directors to an independent body;
 - (c) the ways in which we communicate with directors and audit committees; and
 - (d) the timing for communicating matters to directors.

B Our response to matters raised

Key points

This section outlines the suggestions for improvement from the submissions on our proposed changes to [Regulatory Guide 260 *Communicating findings from audit files to directors, audit committees or senior managers*](#) (RG 260).

Submissions were concerned with:

- whether we should communicate to directors of audited entities when we have formed the view that audit work should be improved in future years (see paragraphs 9–11);
- whether we should communicate to directors when the auditor did not meet the independence requirements of the *Corporations Act 2001* (Corporations Act), including professional requirements (see paragraphs 12–13);
- what other types of matters could be communicated to directors (see paragraphs 14–15);
- the ability of audit firms to appeal to an independent body ASIC’s decision to communicate a matter to the directors (see paragraph 16);
- ensuring that we use plain English and clear explanations when communicating matters to directors (see paragraph 17);
- our availability to meet with directors and audit committees to discuss the matters we communicate (see paragraph 18);
- whether we should communicate to the directors when there are no findings (see paragraph 19);
- when the revised process would first apply to findings from ASIC reviews of audit files (see paragraph 20); and
- how long audit firms have to respond to ASIC’s findings after receiving ASIC’s proposed communication to the directors (see paragraph 21).

Matters relating to future audits

- 9 We proposed that we would communicate audit quality findings where, although reasonable assurance was obtained that the financial report for the current year was free of material misstatement, we consider that additional audit work may be required in future years: see paragraph 11(b) of [CP 352](#).
- 10 Two submissions suggested that these matters should not be communicated to directors of audited entities because the information may be little benefit to them. The submissions considered this would particularly be the case if

the audit team has already planned to perform additional work in future audits.

- 11 One submission suggested that comments regarding potential improvements to future audits may be misinterpreted by the directors as indicating that deficiencies exist in the audit reviewed and that audit quality was impaired.

ASIC's response

We agree with these submissions and have removed this criterion.

The revised [RG 260](#) does not include a criterion for ASIC to communicate matters to directors where we consider that additional audit work may be required in future years, but the auditor has obtained reasonable assurance that the current financial statement was free of material misstatement.

Independence matters

- 12 We proposed to communicate audit quality findings where we have concerns that the auditor did not meet the independence requirements of the Corporations Act (including professional requirements), has not addressed the matter, and has not adequately reported the matter in an auditor's independence declaration: see paragraph 11(c) of [CP 352](#).
- 13 One submission suggested that communicating such matters would be of limited value to directors of audited entities. Directors of listed entities must make a statement in the directors' report as to whether they are satisfied that the auditor's independence was not compromised by the auditor providing non-audit services. Any historical findings would not alter conclusions reached at the time.

ASIC's response

We have retained this criterion for communicating findings in the revised [RG 260](#).

Independence matters can arise in areas other than non-audit services provided by the auditor to audited listed entities (e.g. auditor financial interests in the audited entity, personal relationships with key management, non-audit services to unlisted entities). The matters may also be ongoing. In any event, directors should be made aware of any independence matters and ASIC concerns so that they have an opportunity to consider how they should respond to such matters.

Communicating other matters

- 14 We proposed to communicate any other matter not specifically covered in our other criteria that we consider should be drawn to the attention of the directors or audit committee of the audited entity: see paragraph 11(d) of [CP 352](#).
- 15 We received three submissions that this criterion is too broad and that the revised RG 260 should specify the types of matters that would fall under this criterion.

ASIC's response

We have not specified the types of matters that would fall under this criterion in the revised [RG 260](#).

While we do not envisage other matters being identified and communicated often, it is not practicable to provide an exhaustive list of every type of matter that might arise in the future. It would not be appropriate to limit our ability to communicate matters that are relevant to the directors.

Appeal process

- 16 One submission suggested that audit firms should be able to appeal to an independent body our decision to communicate matters to the directors of an audited entity before the matters are communicated.

ASIC's response

We do not agree with the creation of an appeal process. There are already adequate processes to ensure the quality of inspection findings: see [Information Sheet 224 ASIC audit inspections](#) (INFO 224). This includes:

- always having a quality review of findings;
- the possibility of review by the Chief Accountant on request; and
- review of the ASIC methodology and selected anonymised findings annually by an independent panel.

An appeal process would not be consistent with the nature of the inspection process of working with auditors to improve audit quality on a timely basis. It is not a process used in other surveillance and compliance activities of ASIC and other regulators. Such processes exist for enforcement actions.

An appeal process could also significantly delay the communication of matters to directors and action by audit firms to improve audit quality.

Directors and audit committees will be able to make their own assessment of the findings communicated and the adequacy of the audit firm's included response.

Drafting of communications

- 17 Four submissions suggested the use of plain English and appropriate language when communicating technical findings to directors and audit committees of audited entities. They also suggested that we provide appropriate explanations of matters communicated.

ASIC's response

We will use plain English in our findings document and include appropriate explanations in our communications of findings to directors and audit committees. Audit firms should also ensure that their responses to the matters in the findings document to be communicated to directors are written in a clear and concise manner.

Meeting with audit committees

- 18 One submission suggested that ASIC should be available to meet with directors or audit committees of audited entities, to discuss the matters communicated in writing.

ASIC's response

The revised [RG 260](#) states that it is not intended that the directors or audit committees seek to meet with ASIC to discuss the matters communicated. We have separate processes for communication with entities and their directors in connection with inquiries and concerns relating to the entity's financial report.

Absence of findings

- 19 Three submissions suggested that we should inform directors of audited entities when we have identified no negative audit quality findings through our audit file review.

ASIC's response

RG 260.54 of the attachment to [CP 352](#) included the sentence 'At the conclusion of our review we will either communicate matters as outlined in Section B or inform the directors that we had no matters to communicate.'

We have retained this sentence in the revised [RG 260](#): see RG 260.55.

First matters to be communicated

- 20 Two submissions suggested that we provide further clarification around the timing of communication of ASIC findings. In particular, the submissions were concerned with whether only matters that has been settled after 1 July 2022 will be communicated, rather than those findings that are still under discussion.

ASIC's response

The routine communication of matters to directors of audited entities will first apply for audit file reviews substantially completed after 1 July 2022.

Period for audit firm response

- 21 One submission suggested that audit firms should be given 14 days to provide their response to ASIC's proposed communication of findings from the review of an audit file before a matter is communicated to directors of the audited entity. Audit firms currently have seven days under the *Australian Securities and Investments Commission Act 2001* (ASIC Act).

ASIC's response

We have not adopted this suggestion.

The seven-day period in s127(2F) of the ASIC Act will generally allow sufficient time for audit firms to provide their final written responses before we communicate matters to the directors.

Audit firms will be aware of the findings well before they receive the final comment form for response. We discuss matters with auditors during ASIC file reviews and in closing meetings with the firm. We also cover the matters when exchanging drafts of our written findings and reviewing the audit firm's draft written responses to our findings.

Audit firms can also escalate matters to ASIC's Chief Accountant for review. Audit firms have at least two weeks to provide their responses on each draft of the comment form before the final comment form is sent to the firm for their final response.

Appendix: List of non-confidential respondents

- Australian Institute of Company Directors
- Chartered Accountants Australia and New Zealand
- CPA Australia
- Deloitte Touche Tomatsu Australia
- KPMG Australia
- Nexia Australia