

7 October 2016

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

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

Dear Mr Niven

Consultation paper 265 Communicating audit findings to directors, audit committees or senior managers

The Australian Institute of Company Directors (AICD) is pleased to provide comments on *Communicating audit findings to directors, audit committees or senior managers* ('Consultation Paper').

The AICD is committed to excellence in governance. We make a positive impact on society and the economy through governance education, director development and advocacy. Our membership of more than 38,500 includes directors and senior leaders from business, government and the not-for-profit sectors.

The Consultation Paper sets out proposed criteria that ASIC would apply in determining which findings from its review of audit files it would communicate with directors, audit committees or senior managers of the entities concerned, to operationalise a legislative power that has existed, unused, since 2012. ASIC also outlines its proposal to inform the board of directors of an audited entity know if the regulator is conducting a routine review of the firm's audit files, with ASIC encouraging directors to seek information from auditors on any issues that may arise.

The AICD is generally supportive of the policy aims of the Consultation Paper. In developing the proposed Regulatory Guide, the AICD has identified areas that may warrant further review, and could be explored in roundtables with stakeholders. These issues include:

- Greater clarity on ASIC's priorities in applying the proposed criteria;
- Formalising a process for liaison with auditors on proposed communication, which we envisage would occur prior to contact with company directors or officers;
- Expectations on timeliness of communication, versus the timing of the audit inspection program and company reporting cycles;
- Interaction with continuous disclosure obligations where relevant;
- ASIC's proposed approach to circumstances where a disagreement exists between the regulator and an auditor.

Our further comments on specific questions in the Consultation Paper are included below.

B1: Comments on our proposed criteria set out in Table 1 and any additional criteria for consideration

- Table 1 is headed 'Proposed criteria for communicating financial reporting and audit findings'. We are unsure why the reference to 'financial reporting surveillance' has been included in the paper and why 'communicating financial reporting findings' is included in the header to Table 1. We understood that the financial reporting surveillance activities undertaken by ASIC are a separate process. To avoid confusion, it may be preferable for the wording refer to the audit inspection process only.
- **Criterion 2:** We recommend that this criteria should be limited to instances of significant concern, with the regulator providing further clarity on its note on the scope of follow-up reviews being undertaken for 'particularly significant findings'.
- **Criterion 3:** The AICD would consider it appropriate for ASIC to disclose planned enforcement action arising from the regulator's review of a firm's audit files to the entity's board of directors, regardless of how quickly or where these are to be pursued.
- **Criterion 5:** As drafted this relies on very subjective determinations, in particular in sub paragraph (a). We encourage ASIC to give consideration to further context on its application of this criteria or the use of worked examples to assist stakeholders.

B2: Proposal to let directors know that we will be reviewing the audit files relating to the entity both as part of a routine audit firm inspection and as part of a surveillance activity where there is concern about the adequacy of the audit

- The AICD supports the proposal for ASIC to communicate to an entity's board of directors that the regulator is reviewing audit files as part of a routine audit firm inspection. Communication will assist directors to raise the matter with the auditor, so that further discussion can be held about any outcomes once these are known. Directors have informed us that it is generally the practice of the largest audit firms to advise the Audit Committee of an ASIC audit file inspection and discuss any relevant findings.
- The AICD supports the proposal for ASIC to let directors of an audited entity know that the regulator will be reviewing audit files as part of a surveillance activity, where it has reason to be concerned about the adequacy of the audit. We recommend that protocols be developed with audit firms to guide the application and timing of such disclosures and liaison with audit firms on such disclosures.
- The Consultation Paper does not explain the distinction between a routine audit firm inspection and an inspection as part of surveillance activity, greater clarity could be beneficial.

If you would like to discuss any aspect of our views please contact Kerry Hicks, Senior Policy Adviser, on khicks@aicd.com.au or 02 8248 6635.

Yours sincerely



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