

24 July 2018

Mr Jonathan Bravo  
International Organization of Securities Commissions (IOSCO)  
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*via email: consultation-04-2018@iosco.org*

Dear Sir/Madam

**IOSCO Consultation Report on Good Practices for Audit Committees in Supporting Audit Quality**

Thank you for the opportunity to provide a submission on the *IOSCO Consultation Report on Good Practices for Audit Committees in Supporting Audit Quality*.

The Australian Institute of Company Directors (**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 43,000, the largest director institute globally, includes directors and senior leaders from business, government and the not-for-profit sectors.

Australia's corporate governance is well respected globally and has withstood the test of time. The World Economic Forum 2017-2018 Global Competitiveness report ranks Australia as 8<sup>th</sup> out of 137 nations for 'efficacy of corporate boards'. The Asian Corporate Governance Association has also ranked Australia first in corporate governance practices compared to 11 other jurisdictions in Asia, including Singapore, Hong Kong, Japan and South Korea, in a 2017 study.

**1. Executive Summary**

Overall, the AICD agrees that audit committees can have an important role in supporting audit quality in the interests of market confidence in the quality of information in the financial reports of issuers. Further, we note the audit committee role is broader than the engagement with external auditors. The audit committee role can include broader corporate reporting matters, engagement with internal audit, risk management, compliance and internal control oversight.

In Australia, audit committees are considered sub-committees of the board. Their role is determined by the charter, which is approved by the board, and they make recommendations for action to the full board, which retains collective responsibility for decision making.

AICD considers the proposed good practice guide, with its focus on principles, is useful in an international context particularly in jurisdictions that do not have a strong focus on 'audit quality'. We are broadly supportive of the contents of the guide, indicating some areas of improvement below:

- Some consideration could be given to the good practice areas in Australia in relation to the section on 'Features of Audit Committees that Support Audit Quality'.
- The role of the audit committee in assessing and challenging the decisions made by the auditor in undertaking their audit work.
- The use of the word 'ensure' in the guide as directors are not in a position to 'ensure' given their oversight role.
- Public reporting by the audit committee on any issue, including independence requirements.

## **2. Features of Audit Committees that Support Audit Quality**

In response to Question 4, the AICD considers that much of this section is not necessary in Australia given the maturity of governance practices and laws, including the use of audit committees.

To demonstrate this, we have included some specific examples below where Australian requirements currently set a higher bar than that proposed in the IOSCO good practice guide. We recommend consideration of these requirements and practices when finalising the IOSCO good practice guide.

In Australia, the Australian Stock Exchange (**ASX**) Corporate Governance Principles and recommendations are required to be adopted for listed companies on an 'if not, why not' basis, also known as a 'comply or explain' basis. In some cases, the ASX listing rules override the 'if not, why not' application and mandate certain matters relating to composition of the audit committee for large listed entities. For example, for the top 300 listed entities in Australia the listing rules require a majority of audit committee members to be independent and the chair must be independent. For those entities not in the top 300 listed entities, this requirement is considered 'good practice' for audit committee composition in Australia, and is a higher bar than the requirement in proposed good practice 2 where only consideration should be given as to whether the chair should be independent.

AICD considers that 'good practice' requirements for an audit committee chair include: demonstrated leadership qualities, knowledgeable about the duties and responsibilities of the position, have skills and knowledge about the industry, the entity's business as well as financial reporting and auditing requirements, along with strong communication skills. We note that this is a higher bar than what is suggested in proposed good practices 3 and 4. In particular the proposals suggest that an audit committee chair or another member should have a good knowledge of financial reporting or audit.

### **3. Audit strategy and scope**

In response to Question 5, we are concerned with the wording of proposed good practice 33 which requires the audit committee to take reasonable steps to ensure that ‘the auditor’s decision not to review or test one of the significant systems supporting information in the financial report in a particular year but still rely on relevant key controls is appropriate, particularly where the audit committee is aware of risks that controls may be intended to address or has other relevant concerns...’. This good practice point then discusses IT general and application controls and also the use of component auditors.

We consider the wording in this good practice point is too specific in that it indicates that the audit committee is required to challenge the independent judgement made by the auditors in specific areas (such as controls, IT and component auditors). We do not consider this is the specific role of the audit committee, the role of which is outlined in the specific audit committee charter for the organisation. Good practice would dictate that the audit committee would engage in discussion with the auditor regarding the planned scope of the audit, which is already covered in good practice 32.

### **4. Independence**

In response to Question 5, we do not support proposed good practice 54 that requires the audit committee to report to shareholders on the actions it has taken to safeguard the independence of the auditor. As discussed below, in Australia any reporting to shareholders is the responsibility of the whole board and not the audit committee specifically. Further, our law contains certain public reporting obligations in regards to auditor independence, namely:

- The auditor is required to submit an auditor’s independence declaration; and
- The directors of listed companies are required to provide information about non-audit services supplied by the company auditors as well as an assessment that they are satisfied that the non-audit services provided did not compromise the auditor independence requirements of the *Corporations Act 2001*.

### **5. Use of the word ‘ensure’**

In response to Question 8, the AICD does not support the use of the word ‘ensure’ in relation to the role of directors or audit committees. In a number of cases the proposals state ‘The audit committee should take reasonable steps to ensure that...’ and there are some other instances where ‘ensure’ is also used. ‘Ensure’ is commonly defined as to ‘make certain that (something) will occur or be the case’. The word ensure infers managerial ownership of a process, and directors cannot be so closely involved in an organisation that they themselves can ‘ensure’ that something happens or does not happen. Instead of the word ‘ensure’ the words ‘be satisfied’ or whether an introductory sentence is required at all in relation to the proposed good practices.

### **6. Frameworks, practices and tools**

In relation to Question 11, in Australia, we have extensive guidance on good practice in regards to audit committees generally, and on audit quality in particular. The booklet *Audit Committees – A Guide to Good Practice (Third Edition)* was reissued in 2017 and is a joint publication by the Auditing and Assurance Standards Board, the AICD and the Institute of Internal Auditors – Australia. The purpose of this guide is to provide a practical introduction to the role and responsibilities of an audit committee, explain the context in which an audit committee typically operates and outlines good practice. Further, the Australian Securities and Investments Commission (ASIC) has a specific publication on audit quality *ASIC Information Sheet 196 – Audit quality: the role of directors and audit committees* which is a useful source of reference for directors and audit committees.


### **7. Public reporting**

In response to Question 12, we do not consider a section on public reporting is required as part of the proposed good practice guide. In Australia the audit committee itself does not have accountability to the public, it has accountability to the board. We support the formal reporting of the audit committee to the board at the board meeting following each audit committee meeting, providing a summary of the audit committee's work and results.

### **8. Next steps**

We hope our comments will be of assistance. If you would like to discuss any aspect of this submission, please contact Ms Kerry Hicks, Senior Policy Adviser, on 61 (0) 2 8248 6635 or at [khicks@aicd.com.au](mailto:khicks@aicd.com.au).

Yours sincerely

A handwritten signature in black ink, appearing to read 'Louise', with a long horizontal flourish extending to the right.

**LOUISE PETSCHLER**  
General Manager, Advocacy