



Current issues in financial reporting and assurance

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Quality In Everything We Do

Agenda

- ▶ European Commission Green Paper
 - ▶ *Audit Policy: Lessons from the Crisis*

- ▶ Local regulator activity
 - ▶ *ASIC, Treasury and the large firms*

EC Green Paper on audit policy

- ▶ EC seeking to address three broad questions:
 1. What is the current role of the audit profession and should that role change?
 2. Is the profession sufficiently independent from the companies that we audit?
 3. Is the audit market excessively concentrated?

EC Green Paper on audit policy

▶ *Role of the auditor*

- ▶ Crisis has prompted questions about whether additional disclosures needed on what auditors do and how they do it
- ▶ Also prompted questions on whether auditors could do more to contribute to broader investor confidence and enhance financial stability

EC Green Paper on audit policy

- ▶ **Independence of the auditor**
 - ▶ EC Green Paper raises concerns about independence of auditors
 - ▶ Some of the measures would remove audit committee oversight and responsibility for important decisions

EC Green Paper on audit policy

▶ Audit quality

- ▶ Green Paper acknowledges continuity in provision of high-quality audits is critical to financial stability
- ▶ Some measures threaten audit quality and would be highly disruptive to companies and investors
 - ▶ Maintaining and enhancing audit quality must be the priority in any revisions
 - ▶ Proposals that threaten audit quality should be rejected

EC Green Paper on audit policy

- ▶ **Audit quality**

- ▶ Should the largest audit firms be broken up?

EC Green Paper on audit policy

- ▶ **Audit quality**

- ▶ Should there be mandatory audit firm rotation?

EC Green Paper on audit policy

- ▶ **Audit quality**
 - ▶ Should there be compulsory joint audits?

EC Green Paper on audit policy

- ▶ **Concentration and market structure**
 - ▶ EC Green Paper raises concerns about concentration and lack of choice in upper end of public company audit market
 - ▶ Some of the measures would impair audit quality

EC Green Paper on audit policy

- ▶ **Global coordination in audit firm oversight**
 - ▶ An imperative given the inter-connectedness of global capital markets
 - ▶ In considering proposals to fundamentally alter structure of profession and role of audit, EC must keep in mind that inter-connectedness and the need for consistent regulatory approaches

Local regulator and large firm activity

- ▶ ASIC and Treasury engagement with EC Green Paper
- ▶ Changes to audit partner rotation requirements
- ▶ Non-partners becoming registered company auditors and signing audit reports
- ▶ Influence of proxy firms
- ▶ ASIC concerns over use and prominence of alternate profit measures

ASIC surveillance program for FY11

1. Reporting performance and business drivers
 - ▶ Operating and financial review
 - ▶ Non-statutory profits
 - ▶ Segment reporting
2. Non consolidation of majority owned entities
3. Current market conditions
 - ▶ Going concern
 - ▶ Impairment
 - ▶ Fair values
 - ▶ Financial instrument disclosures
 - ▶ Current / non-current classification
 - ▶ Disclosure of estimates and judgements
4. Other
 - ▶ Business Combinations
 - ▶ Debt vs equity
 - ▶ Other Comprehensive Income
 - ▶ Providing information to auditors