

Recommendations of discussion paper

Included in the recommendations of the discussion paper are the following. The relevant recommendations taken from the section *Report Proposals* (pages 1–9) of the paper will be quoted or briefly outlined, followed by commentary.

Expanded Financial Reporting Council (Oversight body)

Paragraph 1 of the Reform Proposals states

- The Government will expand the responsibilities of the Financial Reporting Council (FRC), which currently oversees the accounting standard setting process, to oversee auditor independence requirements in Australia. The FRC will:
 - Oversee auditing standard setting arrangements. This will be achieved by reconstituting the existing Auditing and Assurance Standards Board (AuASB) with a Government appointed Chairman under the auspices of the FRC, similar to the Australian Accounting Standards Board (AASB). Auditing standards will have the force of law on the same basis as AASB Standards.
 - Advise the accounting professional bodies on issues of auditor independence.
 - Monitor and report on the nature and adequacy of the systems and processes used by audit firms to deal with issues of auditor independence.
 - Monitor and report on the response of companies in complying with audit-related disclosure requirements.
 - Advise on continuing steps to enhance auditor independence.
 - Promote and advise on the adequacy of the teaching of professional and business ethics by the professional accounting bodies and tertiary institutions.
 - Monitor and assess the adequacy of the disciplinary procedures of the accounting bodies.

Commentary

The necessity for an oversight body for the auditing profession has been widely acknowledged. The Ramsay Report recommends the introduction of an oversight body, and such a body is also being introduced in United States. The government is recommending that the existing Financial Reporting Council (FRC) fulfil this function.

The FRC is a statutory body that was established in 2000 to provide 'broad oversight of the Australian Accounting standard setting process for the private, public and not-for-profit sectors' (p. 24, Discussion Paper). The Treasurer appoints its members, who are drawn from the business community, professional accounting bodies, governments and regulatory bodies (p. 24, Discussion Paper).

The Ramsay Report (2001) recommends an Auditor Independence Supervisory Board, the majority of whose members would be external to the auditing profession (pp. 67–8). This is the approach adopted in the US. The use of the FRC as an oversight board raises questions as to whether this body has the resources to act effectively. The duties of the FRC appear to be standard for an oversight board. The requirement that auditing standards have the force of law may have limited value for two reasons. These are that:

- auditing standards are even more subjective than accounting standards, and whether an auditor has complied with the standards may be a matter of opinion; and
- the ability to monitor compliance to auditing standards is minimised because it is not possible to determine whether an auditor is complying with the auditing standards while the audit is being conducted. Details of poor auditing may not come to light for a significant period after the actual audit.

Reference

Ramsay, Ian, 2001, *Independence of Australian Company Auditors: Review of Current Australian Requirements and Proposals for Reform*, Commonwealth of Australia.