Paper for Bills Committee Meetings on

Companies Bill to be held on 15 May 2012

Company Bills:

> Every person, either individual auditor or authorized audit company commits an offence if the person knowingly or recklessly causes a statement required to be contained in an auditor's report to be omitted from the report under 398(2) (b)* or (3) *section. (Clause 399)

Our major view

Auditors' main duty is to judge the accuracy of the financial statements and report back to the board of a company. To do this, auditors usually examine some typical transactions and review internal controls, accounting procedures, and financial reporting systems. Fundamentally, the concern is how auditors carry out these duties objectively and fairly.

We believe the purpose of Clause 399 is to regulate auditors' behavior, especially reporting behavior and we mainly agree with the clause.

Auditors' reporting obligation

The collapse of an energy giant –Enron in 2004 has elevated the importance of auditors' role in financial reporting.

We believe that auditors' reporting obligations are a significant aspect of their role in conducting an audit and should be included in the audit plan and audit program for each entity subject to audit. We expect auditors to be vigilant and to make appropriate inquiries where the circumstances warrant inquiry.

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*Notes:

398 2 (b) the financial statements are not in agreement with the accounting records in any material respect.

398 (2) if a company's auditor fails to obtain all the information or explanations that, to the best of the auditor's knowledge and belief, are necessary and material for the purpose of the audit, the auditor must state that fact in the auditor's report.

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Questions

However, there are 2 points we think may need a further discussion:

1. Besides major contravention of 398(2) (b) which must make a statement in an auditor's report, what about if auditors detect some misstatements which may indicate that there may be such contraventions?

We do not expect auditors to engage in a systematic search for all possible contraventions since after all auditing is a spot check of information, not an exhaustive review of all financial transactions. But auditors should be alert to matters that come to their attention that may indicate that there may be such contraventions.

The auditors' reporting obligation is not limited to matters that have arisen from the audit or review. Information may come to the auditors' attention during the course of the audit or review, or otherwise, which gives rise to reasonable grounds to suspect that a contravention has occurred.

2. What factors involved in determining whether it is "in material respect"?

The auditors' reporting obligations require auditors to make their own reasonable judgment about whether a suspected contravention is material and so should be reported.

The following factors that we believe auditors could consider in deciding whether a deficiency in financial statements is significant. These factors are:

(a) The level of deficiency;

(b) The effect that the deficiency has, or may have, on:

(i) The overall financial position of the company, registered scheme or disclosing entity; or

(ii) The adequacy of the information available about the overall financial position of the company, registered scheme or disclosing entity.

Conclusion

The auditors' standard report states that the examination was performed in conformity with generally accepted auditing standards and by expressing an opinion that the client's financial statements are presented fairly in conformity with generally accepted accounting principles. Generally, we agree with Clause 399 and hope the clause can be best applied to control auditor's reporting behavior.

16 May 2012

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