

# [Audit enhancement bill 2012 case study examples](https://assignbuster.com/audit-enhancement-bill-2012-case-study-examples/)

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The Audit Enhancement Bill 2012 aimed at improving the transparency and quality of the auditing process to align Australia’s auditing framework with internal standards (Australian Government, 2012). According to Australian Institute of Chartered Accounts (AICA), the Audit Enhancement Bill 2012 brings more evolutionary changes than revolution changes. The AICA believes that these evolutionary changes will help in fine tuning the quality of the auditing process in Australia. The Audit Enhancement Bill 2012 are several measures affecting the regulatory framework in Australia. These measures recommended in the Bill include the extension of the frequency of rotating auditors by two years from the current duration of five years, the introduction of transparency reports to auditors with a large client base, and changes in the roles of the Financial Reporting Council (FRC) by removing the duplication of operational responsibilities between the ASIC and FRC. Other than giving ASIC the power of conducting audit independence under the current regulations, the Auditor Enhancement Bill empowers ASIC to issue efficiency of audit reports (Bradbury, 2012). The following is a detailed explanation of the proposed changes.

## Compulsory publishing of Annual Transparency Reports

The Audit Enhancement Bill 2012 requires audit firms, authorized audit companies, and individual auditors to publish transparency reports if they conduct auditing activities in excess of 10. This requirement ensures that the audit firms, authorized audit companies, and individual auditors avail factual information to public on important financial institutions. Such institutions include listed companies, Authorized Deposit-taking institutions (ADIs), listed registered schemes, and other bodies regulated by APRA (Australian Government, 2012). All transparency reports must be lodged with Australian Securities and Investments Commissions (ASIC) on or earlier that the first date of publishing.

## Issuance of Audit Deficiency Reports by ASIC

The Enhancement Bill empowers ASIC to print audit deficiency reports in situations where the audit firm, registered audit company, or individual auditor fails to take measures that rectify mistakes required by the auditing standards and ethics. This move increases the powers and roles of ASIC to regulator of federal audits on top of the role of regulating federal securities (Bradbury, 2012). The empowerment also allows ASIC to air direct concerns with the audit client or the audited body involved in the auditing malpractice. Erroneous auditors, audit firms, or registered audit companies will thus be named and shamed in the occurrence of any auditing error. There is no doubt that this power will lead to the reduction in the volume of auditing deficiencies.

## Removal of the role of FRC in overseeing auditor independence

The Audit Enhancement Bill 2012 brings changes to the auditor independence by giving ASIC the powers or audit files from companies on request. ASIC will execute this new role through its audit inspection program. This role was influenced by the effects of the economic crisis of 2008 that was caused by weakened qualities of auditing frameworks. Initially, the Financial Reporting Council (FRC) had the responsibility of overseeing the independence of audit (Institute of Chartered Accountants Australia, 2012). The delegation of this role to ASIC was replaced by a strategic role that involves the provision of policy advice and reports regarding the quality of audit process to professional accounting bodies throughout Australia. However, a memorandum of understanding between FRC and ASIC stipulates that the Financial Reporting Council will help ASIC in the execution of its duties.

## The Extension of Audit Rotation

The Audit Enhancement Bill 2012 gives directors the mandate and flexibility of extending the normal five-year period of rotating audits by up to 2 years (Institute of Chartered Accountants Australia, 2012). This extension should be undertaken if the audit committee is satisfied with the consistency in maintaining of audit quality and independence of audit. This extension must be delivered in writing and by formal resolution by the audit committee. Firms or Auditors with many clients will have enough time to improve the relationship between audit partners. Initially, the auditing rule required that individual audit partners be rotated after every five years to eliminate chances of audit relationships becoming personal rather than professional, which in most cases is believed to affect the quality of audits. Many a times, it is believed that the strengthening of relationships or continued engagement with one audit partner often leads to deterioration in the quality of auditing advice. However, this extension does serve to prove the practicability of this belief but rather it is aimed at preventing the loss of experience and knowledge in the process of improving the quality of the audit process. The auditing measure will enable auditing companies to retain the expertise regarding the client and the audit process. Such an extension would be beneficial in auditing situations that require additional amount of inside (in-house) knowledge in facilitating the process of understanding and monitoring all business activities. Besides, the extension should only be carried out in situations that do not elicit conflicts of interest.

## Rational Explanation

I believe the Enhancement Bill 2012 will of fundamental and incremental improvement in the quality of the auditing process in Australia. Furthermore, this Bill has elicited positive response from many a professional across the auditing industry. On a more important note, the Enhancement Bill 2012 will enable the treasury to review and align the quality of auditing processes with the required international standards. There is no doubts that the effects of the financial crisis of 2008 instigated to the need for implementing changes to the legal framework in Australia.

Speaking of the effects of measures outlined in the Auditor Enhancement Bill 2012, the aspect of auditor rotation will enable the retention of auditing expertise in complex business process that call for in-house knowledge. Other than the retention of auditing expertise, this move will help in minimizing costs associated frequencies in rotating clients. However, this measure is disadvantageous in the sense that it leads to strengthened relationships with clients and auditors thereby jeopardizing the separation of professional and personal interests.

On the issue of transparency reports, the measure will lead to improved transparency of auditing activities by identifying possible areas with conflicting interests and as well, in identifying the dominance of auditing firms. On the other hand, the issue of audit independence is sensible because it will remove the existence of duplicated and overlapped roles between ASIC and FRC in addition to broadening the role of FRC in advice provision. Finally yet important, the empowerment of ASIC to give audit deficiency notifications is a positive measure in enhancing the quality of audits by availing audit information to the public. This power is popularly known as the power to “ name and shame” any auditing firm that fails to rectify mistakes in the auditing process. In terms of improving the quality of the auditing process, this move will force auditing firms to correct any internal problems that might jeopardize the quality of the auditing process.

## References

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