

15 March 2002

The General Manager Corporate Governance and Accounting Policy Division
Department of the Treasury
Langton Place
PARKES ACT 2600

Attention: Mr Wallace Fernandes

Dear Sir

Ramsay Report (October 2001)

We refer to the report “Independence of Australian Company Auditors – Review of Current Australian Requirements and Proposals for Reform” issued by Professor Ian Ramsay in October 2001.

We are generally in agreement with the recommendations of that report. We agree that changes are needed to enhance the market’s confidence in the independence of auditors as a component of good corporate governance.

We offer the following comments and recommendations that we believe are important to the reform process and which, in our opinion, will further strengthen the proposed reforms:

1. Enforcing ethical and auditing standards

We support the need for Australian auditing standards to reflect world best practice and believe that the current process of updating the ethical standards to meet IFAC requirements will ensure the Australian auditing profession continues to meet that position.

2. Continuous reporting improvements are required

Markets are demanding better and more frequent reporting. A number of other countries have already addressed this in their reporting frameworks. The quality of the information available to the Australian capital markets should be at least equal to overseas best practice.

We recommend that a review of reporting requirements in Australia and overseas be undertaken to develop an improved market information framework regarding continuous reporting.

3. Legal liability reform would enable more comprehensive reporting to occur

There has been significant liability reform recently in the northern hemisphere, with the UK and the USA introducing Limited Liability Partnerships and Canada implementing proportionate liability. Under existing Corporations Law, auditors in Australia do not have the opportunity and would, in any case, regard as unduly onerous (without some level of limited liability) a requirement to report more fully on management’s performance or a corporation’s financial health, largely due to the real risk of spurious legal actions. The Australian unlimited liability environment, a legal prohibition on limiting liability, and the concept of joint and several liability is out of step with where other countries have moved to and, as such, encourages a ‘blame’ and litigious culture where auditors with ‘deep pockets’ are targeted. This involves expensive and time-consuming defence of unwarranted actions.

We believe there is a strong case for greater disclosure of information that will be subject to audit or review and for increased audit scope. This can more readily be accepted under a framework of limitation of liability, some form of proportionate liability and the abolition of joint and several liability of defendants.

4. Auditors who are experienced and multi-skilled deliver the highest quality audits

To conduct quality audits and provide the assurance that markets demand, firms need to attract and retain personnel of the highest quality. Senior audit personnel develop strong business and risk management skills through their involvement over many years in a wide range of assurance, advisory and business risk assessment engagements for their audit clients. Industry knowledge needs to extend well beyond technical accounting areas to provide auditors with an ability to properly evaluate complex business transactions and the associated risk issues. It is not possible to conduct a quality audit without industry specialists in areas such as tax, control systems, treasury and other business risk activities.

We are convinced that audit quality will suffer if Boards are restricted from utilising their auditors to undertake services that the Board consider do not conflict with audit independence.

5. Governance and regulation framework needs improvement

We believe that the proposal to establish an Oversight Board (AISB) requires further consideration in light of the existing regulatory and oversight framework. Australia’s regulatory model for effective accountability in the financial reporting and auditing standards area, disciplinary hearings and auditor oversight needs to be reviewed and updated. The current processes are fragmented and, in places, ineffective.

We recommend that a thorough analysis of the current financial reporting, regulatory, oversight and disciplinary framework be undertaken and that an appropriate model be introduced.

6. Response to specific Ramsay recommendations

- **Corporations Act requirement for a statement of auditor’s independence**

We strongly support independence of auditors, in fact and in appearance, and believe that the IFAC rules codify and explain the requirements well. Legislation will, by definition, be prescriptive and, as such, is not the right vehicle to achieve effective auditor

independence. We recommend the IFAC rules be adopted in Australia through revisions to the professional bodies' Statement of Professional Conduct, Section F1, Professional Independence.

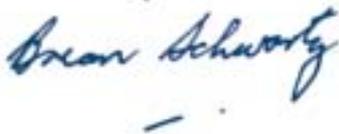
- **Auditors should attend Annual General Meetings**

We agree that the auditor should attend all AGMs but we do not believe that it is necessary to introduce legislation to achieve this. We believe the most appropriate mechanism to achieve this outcome is to require the auditor to attend the Annual General Meeting of listed companies through professional rules.

Based on discussions with clients and contacts in Corporate Australia over recent weeks, we believe that Australian companies are already moving to address these matters within the context of their responsibilities for good corporate governance. We are also currently working with our clients one-on-one to address these issues and the need for change.

We would welcome the opportunity to meet with you to outline the innovative approach we are taking in relation to auditor independence to achieve a best practice corporate governance environment. Please do not hesitate to contact me on (02) 9248 4440 should you wish to arrange a meeting.

Yours faithfully



Brian Schwartz
Chief Executive Officer

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