



SECURITIES INSTITUTE

Mr Wallace Fernandes
The General Manager
Corporate Governance and Accounting Policy Division
The Treasury
Langton Place
Parkes ACT 2600.

Dear Mr Fernandes

Independence of Australian Company Auditors: Review of Current Australian Requirements and Proposals for Reform

The Securities Institute of Australia, through its Company Reporting Subcommittee, would like to briefly comment on the report by Professor Ian Ramsay on the *Independence of Australian Company Auditors* ('the Ramsay Report').

The Securities Institute generally supports the Ramsay Report's approach to strengthening auditor independence and accountability, enhancing the quality and consistency of auditing services and improving transparency in the financial reporting process in order to uphold investor and market confidence in the auditing function and the Australian securities industry.

In relation to regulating the auditing profession in Australia and addressing the key issues of safeguarding auditor independence and audit effectiveness, the Institute supports the Ramsay Report's multi-pronged approach of co-regulation between the professional accounting bodies and the regulators.

With respect to overseeing and disciplining the auditing profession, the primary framework of self-regulation by professional bodies, accounting and audit standards, professional ethics and best practice guidelines in line with international best practice is preferred.

The Institute supports in principle the joint submission by the Institute of Chartered Accountants of Australia and CPA Australia as presenting a thorough and appropriate response to the Ramsay Report and as addressing the major practical issues.

We endorse the recommendation for mandatory independent audit committees to assist listed companies in improving their corporate governance, risk management and financial reporting obligations. As shown in the recent ASIC survey, many major companies already have established audit committees. We welcome the Report's stipulation of the role, responsibilities, composition and qualifications of the audit committee in relation to auditor appointment, remuneration and overseeing the audit review process, and in addressing perceived independence problems.



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As auditor independence is crucial to maintaining confidence in our capital markets and financial reporting system, the legislative statement of a specific requirement for auditors to be independent is key. The recommended mandatory rotation of audit partners is a sensible measure to reduce the potential for compromised audits as well as bringing new experience and fresh insight to a company's audit. However, we believe the extension of a rotation requirement to regularly rotate audit firms (as proposed in the US) is unnecessary.

The proposed detailed requirements for disclosure of both audit and non-audit services provided by an audit firm will provide increased transparency for shareholders.

In implementing the Ramsay Report recommendations, the Government needs to find a good practical balance in effectively integrating the existing regulatory and professional bodies with any proposed new structural measures and policies, and to take into account the increasingly global nature of Australian companies and their operations, the role of auditors in the wider market context and the need for continuing education and competency training of auditors.

If you have any queries about our submission, please contact either myself on (03) 9679 1427 or Julie Burke, National Policy Manager at the Institute on (02) 8248 7593.

Yours sincerely

Craig Drummond FSIA
Chairman, Company Reporting Subcommittee

22nd March 2002