
Trustee Corporations Association of Australia

**Submission to
Parliamentary
Secretary to the
Treasurer**

**Independence of
Australian
Company
Auditors**

February 2002

Introduction

The **Trustee Corporations Association of Australia**, formed in 1947, is the national representative body for the trustee company industry. It represents 17 organisations, comprising all 7 Public Trust Offices and all but 2 of the 12 private statutory trustee corporations.

Trustee companies have been operating for over a century, and have built a reputation of trust in the community based on their integrity, expertise and professionalism.

Trustee companies are perhaps best known as being the only corporate entities authorised to administer deceased estates. They currently hold wills for well over 1 million Australians.

In fact, trustee corporations provide a wide range of financial services in the areas of:

- Personal wealth management, including: estate and financial planning; tax advice and preparation of tax returns; acting as trustee or providing administrative services for small superannuation funds; preparing wills and acting as executor for deceased estates; preparing and administering powers of attorney; and, setting up and managing personal trusts and guardianships.
- Charitable trusts and foundations, including for: medical research; galleries; museums; and, educational scholarships.
- Funds management, offering most types of unit trusts and common funds.
- Corporate activities, including: registry operations; custodial services; securitisation facilities; compliance monitoring; and, acting as trustee or administrator for non-family superannuation funds.

In aggregate, members' revenue base is estimated to be about half from funds management, and about a quarter each from corporate activities and from personal/charity work. Capital resources are some \$600 million, and members manage or hold on trust for beneficiaries assets worth around \$300 billion.

The Association appreciates the opportunity to provide its comments on Professor Ramsay's Report on the *Independence of Australian Company Auditors*.

Comments on Ramsay's recommendations

The Association supports the general thrust of the Ramsay Report recommendations.

We strongly agree that appropriate independence is critical to good corporate governance and adequate investor protection.

Independent “checks and balances” in a regulatory framework are needed to guard against potential conflicts of interest in financial operations. This in turn assists in promoting confidence amongst investors.

Recent events both in Australia and overseas – HIH and Enron being prime examples - have demonstrated that the independence of financial auditors is a very important element in an effective regulatory framework.

Below are comments on some of the specific recommendations put forward in the Ramsay Report.

Non-audit services

We support the recommendation that there be greater disclosure of the nature and value of non-audit services provided by an audit firm to a client.

Given that there can be cost efficiencies in such arrangements, and that there appears to be no solid correlation between serious shortcomings in financial audits and the provision of non-audit services, we do not believe that an outright ban is warranted. We understand that such a course of action was considered, but rejected, in the US.

We would also note that, in light of the recent attention given to this issue, audit firms are tending to “spin off” their consulting arms.

Audit Committees

The Association strongly supports the Report's recommendation that ASX Listing Rules should be changed to mandate that all listed companies must have an Audit Committee.

We see a properly structured and functioning Audit Committee as a fundamental element in ensuring auditor independence, and as an important part of an effective corporate governance framework.

We agree that a key function of the Audit Committee should be to ensure that the level of non-audit services provided to a client by the firm is not incompatible with being seen to maintain appropriate auditor independence.

In this regard, we note that the recent ASIC survey found that, while the vast majority of respondent companies have an Audit Committee, most of those companies lack robust processes for ensuring that the independence of audit is not prejudiced by the provision of non-audit services. On average, fees for those other services represent almost 50% of the total fees paid to audit firms.

Appointment and removal of auditors

The Association agrees that the auditor should be appointed, and their remuneration determined, on the recommendation of the Audit Committee. We note that there is little support (and no international precedent among developed nations) for auditors to be appointed by a completely independent body such as ASIC.

We also support the recommendation that there be mandatory rotation of the audit partners responsible for the audit of listed companies. A maximum term of 7 years, together with a “cooling off” period of at least 2 years before a partner can again be involved in the audit of a particular client, does not seem unreasonable.

Auditor Independence Supervisory Board

The Association agrees that there needs to be appropriate oversight of the implementation of any changes to the present audit framework that the Government might endorse, and ongoing monitoring of the practical application of that framework.

The continual monitoring of international developments regarding auditor independence, and assessment of the adequacy of the Australian regime, will also be important.

However, we are unsure as to whether there is a need to establish a new body, in the form of the proposed Auditor Independence Supervisory Board, for this purpose. Careful consideration should be given to whether the role envisaged for the AISB could be carried out by an existing body, perhaps the Financial Reporting Council.

Relevance of Ramsay Report recommendations to compliance beyond financial accounting standards

The Association believes that the issues of independence raised in the Ramsay Report have relevance beyond ensuring compliance with financial standards.

Independence is also absolutely critical in ensuring compliance with other standards.

In particular, we submit that investor protection requires clearly independent compliance monitoring for managed investment schemes (almost \$200 billion involved) and superannuation funds (over \$530 billion).

These issues are being considered in the Review of the Managed Investments Act, and the Superannuation Working Group's Review of the Safety of Superannuation. Our view, consistent with the Ramsay Report, is that it is essential that there be a **compliance entity that is clearly independent of the scheme/fund operator** to monitor, on a regular and timely basis, performance in relation to obligations under relevant legislation, trust deeds, and compliance plans.

While financial auditors may have a role to play in this area, we submit that they do not have a monopoly of skills in compliance work. Accordingly, we believe that access to the compliance monitoring/auditing role should be opened up to more competition by licensing other entities, provided they can demonstrate the necessary expertise and financial underpinnings.
