

GROUP OF 100 Inc.

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The Group of 100 is an association of senior accounting and finance executives representing the major public companies and government owned enterprises in Australia.

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5 April 2002

Senator the Hon Ian Campbell
Parliamentary Secretary to the Treasurer
Parliament House
CANBERRA ACT 2600

Dear Senator Campbell

Ramsay Report

The Group of 100 is pleased to provide comments on the recommendations made in the "Independence of Auditors - Review of Current Australian Requirements and Proposals for Reform". The G100 supports the main thrust of the proposals, many of which reflect existing best practice.

- 1. General Statement of principle requiring independence:** The Group of 100 believes that it is not necessary for the Corporations Law to be amended to include a general statement of principle requiring the auditor to be independent to ensure audit independence. We believe that the making of an annual declaration relating to independence and compliance with professional standards and ethical rules of the relevant professional bodies and a more vigorous and transparent regulatory regime is preferable.
- 2. Provision of Non-Audit Consulting Services:** We are concerned that the provision of non-audit services contributes to a perception that audit independence may be impaired. However, we are unaware that there is reliable evidence to suggest that the provision of non-audit services actually leads to the impairment of independence and a lack of objectivity in the external audit process.

We believe companies should implement robust processes relating to the acquisition of non-audit and consulting services from their external audit firm. A total exclusion of non-audit services is inappropriate as often the external audit firm has the best experience or knowledge to perform certain tasks e.g. audit services for due diligence or acquisition. Certain activities may be excluded from a business practice perspective e.g. internal audit and information systems services. In this regard a number of companies have indicated that they will discontinue these types of practices.

3. **Auditor Independence Supervisory Board (ASIB):** The G100 believes that the existence of an ASIB type body may be necessary in order to satisfy capital market participants and the general community of the independence of auditors and the ethical standards of the profession. In doing so it would be important to avoid imposing a regulatory overload on the accounting profession and the external audit process. Experience in the USA is instructive in this regard as there are proposals to implement a new body to replace a somewhat ineffective professional oversight body. However, if such a body is established we believe that it should attract public funding or by way of registration fees on company auditors as a means of addressing potential concerns about its independence from the principal contributors including the accounting profession.

In this regard we also believe that the notion of independence is so fundamental to the integrity of the financial reporting process that the composition and membership of ASIB, if established be based more broadly than representation from capital market participants. For example, membership should include professionals who have a long experience dealing with independence and ethics and could include members drawn from the judiciary, legal and medical professions. This would also address perceptions that the ASIB was subject to undue influence by the accounting and audit profession and other capital market participants.

4. **Rotation of Auditors:** The G100 believes that the rotation of audit partners is good practice to ensure that the relationship between the auditor and the client is subject to regular challenge. However, while in concept the rotation of audit firms is intuitively attractive, such an approach would be likely to significantly increase the costs of audit. While this should not preclude its consideration, mandatory rotation of audit firms would only be practicable on cost-benefit grounds where the audit appointment is for say, at least 5 years. It is suggested that the types of benefits may also be achieved where there is mandatory rotation of audit partners but retaining the same firm if the directors consider it appropriate.

Given the current contraction in choice with the absorption of Andersen into another firm causes the problems with audit firm rotation to be amplified.

Given this will occur there is still significant public debate on corporate governance issues following the high profile corporate collapses. We therefore request the public policy issues are vigorously debated to identify whether legislative changes are necessary. In particular, we should eschew 'knee-jerk' responses which seek instant solutions to issues arising in high profile corporate collapses. The rush to instant solutions is the antithesis of developing good public policy and increases the likelihood of poor decisions that will be counterproductive and inimical to the efficient operation of capital markets.

Subject to the above the G100 believes Ramsay should be implemented promptly.

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A final comment, not directly related to Ramsay, is on the recent ASIC survey on Auditor Independence. Consistent with its interest and concern about issues of Independence of auditors the G100 arranged for its members to participate in an ASIC survey that addressed questions and issues raised in an exposure draft, subsequently issued by the CPA Australia and The Institute of Chartered Accountants in Australia. While ASIC interpretation of the results of the survey have been given some prominence in the press the G100 strongly believes that some interpretations are not robust given the nature of the questions raised and the summary of responses. This is particularly so in respect of inferences drawn by ASIC in relation to rotation of auditors and audit firms and investments by the superannuation plans of audit firms.

Yours sincerely



Tom Pockett
National President

Ramsay report