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Committee Secretary
Joint Standing Committee on Accounts and Audit
Parliament House
Canberra

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Re: Review of independent auditing by registered company auditors

It is noted that the Terms of Reference of the review state:

> With the spate of recent noteworthy corporate collapses both within Australia and overseas, the Joint Committee of Public Accounts and Audit wishes to explore the extent to which it may be necessary to enhance the accountability of public and private sector auditing.
>
> In particular, the Committee is keen to determine where the balance lies between the need for external controls through government regulation, and the freedom for industry to self-regulate.

The first clause refers to 'the accountability of public and private sector auditing'. But 'auditing' is in itself an element of accountability arrangements – whereby those entrusted with control of resources are held accountable to stakeholders are required to provide an 'account' of aspects of their performance. The role of the auditor is primarily concerned with financial representations of the performance of an entity – though not entirely. For example, the requirements for audit in the Corporations Act extend to a range of matters beyond expressions of opinion on financial information. Likewise in the public sector, auditors-general undertake performance audits which may focus on the economy, efficiency and effectiveness with which public sector agencies have performed.

However it is assumed that that the Committee wishes to examine whether the auditing function (as it is undertaken in Australia) may be enhanced – and how that might be undertaken. The second paragraph reinforces that view by referring to the question of whether there is a need for 'external controls through government regulation'[1].

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[1] An alternative interpretation is that the committee is concerned with the accountability of *auditors*. The principal ways in which auditors may be held accountable are: (a) by being subject to questioning at annual general meetings (a right rarely exercised by shareholders); (b) by being subject to review of their registration as company auditors; and (c) by being subject to civil litigation. Avenues (a) and (b) are only relevant to private sector auditors, while (c) is more commonly associated with private sector auditors (though public sector auditors are not protected by the shield of the Crown in relation to some audit assignments). The adequacy of existing arrangements is not examined in this submission.

The plain fact is that requirements for the form and content of audit reports for corporations, other entities whose securities are publicly traded, and for public sector entities, are already prescribed by legislation. These requirements are amplified to some extent by statements of Auditing Standards, issued by the accounting profession.

It is timely to assess the extent to which that legislation, and associated regulatory arrangements, are effective. The last major review of corporations law requirements for auditing was undertaken almost two decades ago and recent experience suggests that some existing requirements are anomalous.

This submission addresses three main areas:

1. the need to re-focus the requirements for audit in the Corporations Law;
2. reforms designed to encourage shareholder involvement in the engagement of auditors and the scope and conduct of auditors' work.
3. auditor independence

1. There is a need to re-focus the requirements for audit in the Corporations Law

Commonwealth legislation establishes requirements for audit, and for the form of audit reporting. The current requirements have their antecedents in nineteenth century English Companies Acts. Early legislation prescribed that auditors were to report whether financial statements were 'true and correct' – establishing the principle that a key function of auditing was to serve as a form of quality control on the financial information disseminated to shareholders and other stakeholders.

Later that requirement was altered (in line with submissions from the accounting profession) to a requirement that directors and auditors report as to whether financial statements provided a 'true and fair view' of an entity's financial position and the results of its operations.

The current wording of this requirement for audit reporting contrasts with that preferred by the auditing profession. The profession would prefer to have the audit report simply stating that financial statements have been

> presented fairly in accordance with Australian Accounting Standards.

and has recommended that practitioners use this form of reporting when undertaking audits of entities that are not subject to the Corporations Law.

The contrast between statements as to whether financial statements present a 'true and fair view', or whether they have been 'presented in accordance with a set of rules', is that the former emphasises that auditing is intended to be a form of ***quality control***, not a mechanical exercise in ***checking compliance with rules***.

In any event, accounting rules are never comprehensive – and always lag commercial experience. The 'presented fairly in accordance with a set of rules' approach may be appealing to the auditing profession as a form of safe harbour, but it is not an effective or meaningful specification of society's expectations that auditors perform a quality control function.

The profession has sought to re-define the purpose of auditing as an exercise of 'adding credibility' to published financial information. Such a standard falls short of a claim that published information is of high quality. And is it the responsibility of Parliament to specify what is expected of an 'audit', and what an auditor (and directors) should assert in relation to the financial information disseminated to the securities market.

It is my opinion that the 'true and fair view' requirement as presently drafted in the Corporations Act is deficient, and warrants re-examination.

In 1993 I acted as an adviser to the then National Companies and Securities Commission in a wide-ranging review of the requirements for accounts and audit in the Companies Act and Codes. The initial product were two 'Green Papers'. The first, published in the name of the Commission, set out wide-ranging requirements for reform of the reporting requirements[2] – the most wide-ranging review since the 1960s (when NSW company laws copied many reporting requirements of the 1948 English Companies Act). The second concerned requirements for a review of the auditing requirements[3].

After a period of consultation and further review, the proposals for reform of the accounting requirements were duly translated into Schedule 7 of the Companies Act and Codes (later Schedule 5 of the Corporations Law, and still later the bulk of these requirements found their way into an Australian Accounting Standard AASB 1034).

The proposals for amendment to the auditing requirements did not find strong support from the major accounting firms or the accounting profession (though responses from auditors-general were supportive. To place that professional opposition in context, other proposals criticised by the profession included requirements that the financial statements should:

- include cash flow statements – a proposal which survived the consultation and review processes undertaken by the NCSC, and which was actually incorporated in legislation. However the requirements for cash flow statements were enacted but not proclaimed, after lobbying from the accounting profession on the basis that an accounting standard on the subject was imminent[4]. In the event, the standard AASB 1026 'Statements of cash flows' did not take effect until eight years later;

[2] National Companies & Securities Commission, *Financial Reporting Requirements of the Companies Act and Codes, 1983).*
[3] R.G. Walker, *'A True and Fair View' and the Reporting Obligations of Directors and Auditors*, National Companies and Securities Commission, 1984.
[4] See R.G. Walker & S.P. Robinson, 'Competing regulatory agencies with conflicting agendas: setting standards for cash flow reporting in Australia', *Abacus*, 1994, pp. 119-139.

- disclose the sums paid to auditors for 'non-audit services'. The minimalist regulatory approach of simply requiring disclosure of the existence of these commercial arrangements was accepted and incorporated in Schedule 7 of the Companies Act & Codes (and successor regulations). Disclosures in terms of these requirements duly attracted the attention of media commentators and some academics. Indeed, without such disclosures we may not have had the current debate about whether arrangements for the joint provision of non-audit services may threaten auditors' independence.

In my view, those 1983 proposals for a revision of statutory requirements for audit, deserve re-visiting, particularly in the light of subsequent developments in the Commonwealth corporations laws.

One of the key 1983 proposals was for the auditing requirements in the corporations legislation to state that the purpose of auditing is to ensure that those relying on published financial statements to make financial decisions are being provided with information relevant to their needs. It was proposed that the relevant legislation include the following 'definition' of the requirement for financial statements to provide a 'true and fair view':

> Without affecting the generality of the meaning of the term '*true and fair view*', a 'true and fair view, in relation to accounts or group accounts means a representation which affords those who might reasonably be expected to refer to those accounts (including holders or prospective purchasers of shares, debentures, notes or other interests, and creditors or prospective creditors) information which is relevant to the decisions which may be made by those persons in relation to the purchase, sale or other action in connection with their securities or interests. (p. 3)

While (as noted above) this proposal was not implemented, the 'true and fair view' requirement was retained in the Companies Act and Codes in the face of pressure from the accounting profession for it to be withdrawn and replaced with the profession's preferred statement that financial statements had been prepared 'in compliance with rules'.

It is of interest to note that representatives of one of the large audit firms, KPMG (as it is now known) were in the forefront of critics of the 1984 Green Paper proposals, and advocated abandonment of the 'true and fair view' test. In 2002, KPMG has expressed support for retention of the 'true and fair view' test.

It also seems noteworthy that when the Commonwealth assumed responsibility for the Corporations Law in 1990 it introduced a 'purposive' drafting style into other reporting requirements. Hence section 1022 prescribes that a prospectus must contain Information relevant to the decisions faced by prospective investors:

> In addition to the information required by section 1021 to be included in a prospectus in relation to securities of a corporation, such a prospectus shall, subject to subsection (2), contain all such information as investors and their professional advisers would reasonably require, and reasonably expect to find in the prospectus, for the purpose of making an informed assessment of:
> (a) the assets and liabilities, financial position, profits and losses, and prospects of the corporation; and
> (b) the rights attaching to the securities.

Similar statements of 'purpose' are made in relation to two other forms of report incorporating financial information: documents issued in response to takeover offers, and documents issued in associated with efforts to compulsorily acquire the interests of minority shareholders. The Corporations Law asserts that these documents should contain information relevant to the interests of shareholders.

It is anomalous that the Corporations Law establishes different standards for the quality of information that is to be made available to investors in 'new' and 'second hand' securities. Meantime auditors have been trained to view auditing as a mere *process*, and consequently many may overlook the *purpose of that process*, and the intended outcome.

Recommendation:

It is recommended that the Committee endorse the inclusion within the Corporations Law of a revised 'true and fair requirement' so that the same standards for the quality and scope of information that apply to prospectuses can be applied to annual financial statements.

2. Legislation should encourage shareholder involvement in the engagement of auditors and the scope and conduct of auditors' work.

Current arrangements for audit in the private sector produce brief, stereotyped audit reports which do not communicate much information to stakeholders (and may even mislead sophisticated investors and other readers). In comparison, public sector auditors commonly report at greater length when they undertake financial statement audits.

The Committee will be aware that the Commonwealth Auditor-General undertakes 'performance audits' dealing with issues of economy, efficiency and effectiveness. My comments are not directed to performance audits. However the introduction of performance auditing in the public sector indicates how arrangement for audit are not determined by the accounting profession but by the Parliament.

The mandate of the Commonwealth Auditor-General to undertake performance audits is established by legislation. When auditors-general report to their respective Parliaments on financial statement audits, they do not confine themselves to a stereotyped 'short form' report. Rather, their reports (at least for agencies in the

general government sector) commonly refer to weaknesses which have been identified in accounting records, internal controls, or management practices. These reports indicate what auditors have been doing, and what they have found. More detailed findings may also be reported to management (and possibly to audit committee) in so-called ‘management letters’.

However it appears that public sector auditors may refrain from reporting such matters when their auditees are public trading enterprises. That is my understanding of practices in the Commonwealth, at the time when I was a member of the Commonwealth Auditor-General’s advisory committee 1989-90. I am not aware of any departure from that practice. The rationale was that it would be inappropriate to place PTEs on a different footing to private sector firms, particularly when they were expected to operate competitively.

In other words, public sector audit practices have sought to mirror private sector auditing practices. It is possible for public sector auditing to ‘lead’ rather than follow.

One innovation – which could be encouraged by the Committee – is to revert to the form of ‘long form’ audit reporting which was commonplace in the 1920s and early 1930s. At that time, private sector auditors reported to stakeholders by describing the scope and range of their tests, and commented on whether they considered specific valuation approaches appropriate or prudent. Examples of audit reports in this style, by major accounting firms of their day, were reproduced as examples of ‘best practice’ in the 1926 edition of the US publication, *The Accountants’ Handbook* (Ronald Press). However practices changed very rapidly after the passage of the Securities Exchange Act of 1934 and the activities of the newly-established Securities and Exchange Commission. The US accounting profession advocated use of a stereotyped short-form audit report (which was thought to reduce auditors’ exposure to civil claims from aggrieved investors, in light of clauses of federal securities laws which threatened auditors with exposure to civil claims if they were a party to the publication of misleading information).

Recommendation:

It is recommended that the Committee explore ways of enabling shareholders to vote on what kind of audit they want to pay for – thus introducing greater competition into the market for audit services (so that auditors could compete not just in terms of price but in terms of the quality of information reported to stakeholders).

For example, the Corporations Law could be amended to provide that shareholders of public companies may, at each annual general meeting, consider a resolution regarding the scope and nature of audit work to be performed in the ensuing year. The AGM could be presented with three options – to require:

(a) a minimum 'assurance report' on financial information – as presently prescribed by legislation; or

(b) an expanded report, covering (a) and in addition requiring auditors to report on any matters not covered in the financial statements of which they are aware, and which they consider shareholders and other stakeholders should know about – including the *adequacy of accounting records for management purposes*, *weaknesses in internal controls*, whether the auditors considers and attendant risks; or

(c) an expanded report, covering (a) and (b), but in addition requiring auditors to review any *related party transactions,* and to report on whether the consideration is fair and reasonable (giving reasons).

3. Audit Independence

Many of the submissions provided to the Committee have dealt with 'audit independence' – possibly arising from concerns about the scale of fees paid to some firms to their auditors for non-audit services, and the involvement of former partners of the auditors of HIH on the board of that company. The failure of HIH (and of APRA's administration of prudential regulation) may be seen as an 'isolated instance' of corporate (and possibly, audit) failure, but certainly it has had a devastating impact on many within the Australian community.

I accept and endorse the broad observations of Professors Dean, Clarke and Wolnizer regarding the difficulties associated with providing independent assessments of financial information which can not be verified or corroborated by external referents. The last three decades have seen major improvements in the framework for financial reporting (though the commitment to international harmonisation of accounting standards threatens to retard the development of quality accounting standards in favour of a low-level consensus - time will tell). However even if all accounting measures were based on 'market values', there would still be a need for auditing, and for auditors to systematically assess the quality of financial representations of firm performance. Meantime business and the community generally have to make do with the current accounting framework, and seek to optimise the quality and relevance of the information that is reported.

Need for ban on auditors 'auditing their own work'

In my opinion, the key threat to auditor independence arises from the involvement of audit firms in the final preparation of financial statements (including the drafting of 'adjusting entries' at year end). The audit staff are then satisfied with that aspect of the accounting process, since it is their own work. They then purport to 'audit' the products of the accounting process.

My experience as an expert witness in a number of civil cases involving claims against auditors (most of which were settled before coming to court[5]) suggests that a recurring feature has been that auditors have, in effect, been auditing their own work. In some cases the time records of the firms involved actually showed that more time (and a higher proportion of the audit fee) had been devoted to the final preparation of accounts and tax returns than had been spent on auditing. The company's disclosures did not reflect these facts (possibly because the auditors involved did not even recognise that they should distinguish audit and non-audit services when they reported 'audit fees').

The auditing profession has issued a statement AUS 202 'Objective and general principles governing an audit of a financial report' which was operative for the first reporting period ending on or after 1 July 1996. AUS 202 states in paragraph .14:

> The auditor should not accept responsibility for the preparation and presentation of the financial report.

Evidence I have encountered indicated that some auditors have initiated most of the adjusting entries in an entity's records, and thereafter prepared the financial reports and determined what information should or should not be presented therein (including, for private companies preparing 'special purpose' reports, determinations as to what accounting standards were to be observed). The auditors then simply forwarded the financial statements to a director or directors for signature.

Apparently many auditors regard such practices as acceptable, provided directors subsequently sign the accounts, and thereby they (not the auditors) 'accept responsibility'.

Need for ban on auditors undertaking valuations and due diligence assignments

While the accounting profession's AUS 202 states

> The auditor should adopt an attitude of professional scepticism throughout the audit recognising that circumstances may exist which could cause the financial report to be materially misstated

such admonitions may not be effective where auditors find themselves auditing representations of the outcomes of their own recommendations or advice.

I have encountered the following situation:

[5] The frequently of settlements means that many instances of audit failure are not widely publicised. Moreover deficiencies in published financial information may have existed for many years before external factors brought them to light. This needs to be recognised when claims are made that instances of poor audit work are isolated occurrences and that there is no evidence of 'systemic audit failure'. From a public policy perspective, there is cause for concern even when there are isolated occurrences of some phenomena (e.g. contamination of drinking water) which can have widespread impact on the community.

> An audit firm was engaged to undertake a due diligence study of a business which a client-entity proposed to acquire. The 'due diligence' study included estimates of the maintainable earnings of the business and also a review of expert valuations of properties to be acquired. On the basis of the 'due diligence' study, the transaction proceeded and involved payment of a premium over and above the estimated value of the net assets of the business, supposedly in recognition of its superior earnings record. That 'premium' would be regarded as goodwill and Australian Accounting Standards require that it be subsequently amortised over a period not exceeding 20 years (as well as requiring that the carrying amount be reviewed each year to assess whether its value was 'impaired'). The auditor may have been placed in an embarrassing position when the earnings obtained from the newly-acquired business were not as high as had been predicted. It was noted that subsequent financial reports did not amortise goodwill in a manner consistent with Australian Accounting Standards, with the effect of increasing reported earnings. At year end, entries were initiated which increased the value of the assets acquired earlier in the financial year, and these entries were accepted by the auditor.

This example may illustrate the conflicts which arise when auditors perform certain forms of non-audit work.

Yet the profession's auditing standards and ethical pronouncements do not prohibit such practices. Professional Statement F1 'Professional independence' does not prohibit such practices and has this to say on the subject:

> Independent Valuation
> No person in a practice may provide valuation services ***to a reporting entity*** in respect of the assets and/or liabilities of that reporting entity, its subsidiaries or entities which it significantly influences if:
> (a) the valuation is to be referred to as an "independent' valuation in an audited financial report of that reporting entity; ***and***
> (b) any person in the practice is acting as an auditor or an officer of that reporting entity (***emphasis added***).

In other words, the profession sanctions auditors performing valuations and then auditing the accounts of private companies and other entities which only prepare 'special purpose' reports (not the 'general purpose financial reports' required of reporting entities). Note also that some public companies are not regarded as 'reporting entities' because in many cases the classification of a company as a reporting entity is essentially a matter for directors themselves to determine (and they may err in favour of non-disclosure).

Further, the profession also permits accountants to prepare valuations and then audit financial statements incorporating those valuations - provided they are not described as 'independent'. (Presumably statements that assets were recorded 'at valuation' would pass muster).

In my opinion, the profession's guidelines on this issues should be overridden by statutory requirements prohibiting auditors from undertaking 'due diligence;' or 'valuation' work for auditees.

Need for ban on auditors undertaking executive recruitment

It is noted that some major accounting firms offer services in the area of executive recruitment.

While I have not encountered any anomalies in this area, it appears that such practices could lead to conflicts of interest where (for example) the audit firm subsequently was called upon to review financial statements compiled or influenced by executives it had recommended for recruitment.

No need for any limitation on auditors performing certain internal audit services

It is understood that the USA's Securities and Exchange Commission has proposed some limited on the performance of non-audit services, including 'internal audit' work.

The boundaries of 'internal audit' are fairly flexible, with practitioners claiming that internal audit embraces what public sector auditors refer to as 'performance auditing' – i.e. reviews of economy, efficiency and effectiveness. In some cases, internal auditors may perform elements of 'management consulting'.

Some of this work could establish conflicts of interest when an external auditor performing internal audit work comes to review financial representations of an entity's performance. There may be an inclination to accept accounting treatments which show improved performance in areas which have previously been the subject of internal audit advice.

Other areas of 'internal audit' are entirely consistent with the work of an external auditor – for example, substantive testing of transactions to ensure that they have been properly authorised and recorded.

Many large organisations may have engaged internal auditors because it was cheaper, more timely and more cost-effective to employ full-time staff reviewing the operations of internal controls and the adequacy of intra-organisational documentation of delegations and authorities than to leave such tasks to an external auditor. Correspondingly, the external auditors' fees have regard to the scope of the work performed by an internal auditor in testing and reviewing internal controls.

Some organisations now engage major accounting firms to perform internal audit work on a contract basis. In those instances, outsourcing of internal audit may provide access to a wider range of skills and specialised knowledge than could be expected from 'in house' appointments. However if any limits are to be set on the extent to which an auditor may engage in non-audit services, the drafting of those requirements should carefully distinguish internal audit work which is *advisory* as opposed to

internal work which is concerned with *the integrity of accounting and information systems, and compliance with formal delegations and policies*.

Other non-audit services

In my experience, there are cases where it makes sense to engage an audit firm to deliver non-audit services. Even though the principle of ensuring that auditors are independent may be valued, occasions may arise where that principle may need to be set aside when there was an urgent need for assistance. For example, IT specialists in an audit firm would have experience with an organisation's information systems, and could be drawn up to assist in monitoring readiness for systems migrations or related work.

It would however be appropriate to limit the scale of involvement of auditors in restricted forms of non-audit activity, for listed companies and other reporting entities. An upper limit of 20% of the audit fee seems appropriate.

Independence and former partners of audit firms acting as directors

Concerns about the involvement of former audit partners on company boards are of less significance than the failure of many listed corporations to ensure that they have a 'balanced' board, with an appropriate mix of skills and experience relevant to their activities.. Indeed, former auditors may well have superior industry knowledge than other candidates (though the extent of representation on HIH's board, and the immediacy of their involvement in client audit work, went too far).

Some boards of major listed companies do not appear to have balanced boards. For example, some appear to lack directors with financial qualifications. Others seem to lack directors with experience in the area of their core business. Some do not appear to have sufficient non-executive external directors (that is, excluding directors with a prior employment association with the firm concerned).

Community attitudes about the appropriateness or otherwise of auditors or former CEOs to Board positions seem to have changed over time. What was acceptable in the 1970s may be frowned upon today. At the same time most discussions of corporate governance seem to accept that 'one size does not fit all'. There is currently a healthy debate occurring over the role of institutional investors in promoting enhanced corporate governance.

It is considered premature to suggest formal legislative requirements on board composition at this stage of the debate – though in my view a priority may be for listed entities to have a majority of non-executive directors on their boards.

Rotation of audit firms

I believe there is merit in establishing a regime whereby auditors of listed companies and other reporting entities would be engaged in terms of fixed term non-renewable contracts. Such a system has been used in public sector auditing by the Audit

Commission of Scotland. It has the virtue of ensuring the introduction of 'fresh eyes', and fresh approaches to the audit task. Correspondingly, the prospect of later changes in the appointment of auditor may keep incumbent auditors on their toes.

Rotation of audit partners

The profession's claims that the independence of auditors will be strengthened by the introduction of requirements for audit partners to be 'rotated' every five years or so, is surprising.

From my knowledge of past audit failures (documented or otherwise), I can only recall one or two instances where an audit failure was associated with the long-term involvement of an individual partner of an audit firm.

Nor, from my experience in acting as an expert witness in litigation involving auditors, can I recall instances where the partner involved in poor quality auditing had been in charge of a particular audit for a period in excess of five years.

Perhaps representatives of the accounting profession should be asked to explain the background to this proposal.

In the absence of evidence to the contrary, this proposal appears to be only of symbolic significance.

Quality controls within audit firms

In my opinion, a more productive step would be to ensure that audit work is subject to rigorous quality controls within audit firms. The accounting profession has issued Auditing Standards AUS 206 'Quality Control for Audit Work' which emphasises the need for systematic supervision of audit assistants and for the work performed by assistants to be reviewed:

> The work performed by each assistant should be reviewed by personnel of equal or higher competence to determine whether:
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> (a) The work has been performed in accordance with professional and firm standards.
> (b) The work performed and the results obtained have been adequately documented.
> (c) Any significant audit matters remain unresolved.
> (d) The objectives of the audit procedures have been achieved and the conclusions expressed are consistent with the results of the work performed and support the auditor's opinion on the financial information (paragraph 10).

However these requirements are not drafted so as to require senior auditors – partners - to review the quality of audit work. It suffices if the work of inexperienced audit assistants may be reviewed by other, inexperienced audit assistants.

I have encountered situations where it has been asserted that the second partner reviews are only warranted only where a high audit risk has been identified.

A more constructive approach would be to use the registration requirements for auditors to require that auditors expressing opinions on a set of 'general purpose financial statements' should be required to seek 'second partner reviews' of their audit working papers before they sign the audit report

I suspect that such an initiative would be welcomed by many non-audit partners of large accounting firms who are often exposed to the risks of litigation in relation to an audit assignment for a firm they have never heard of, undertaken by a partner they may never have met. Strange to relate, it appears to be the practice of at least some accounting firms not to keep partners informed about litigation against their own firm. The very partners who may be jointly and severally liable for meeting civil claims against their firm are not in a position to ask hard questions and promote practice improvements within their partnership.

Summary and recommendations on steps which might enhance audit independence:

It is recommended that the Committee endorse:

(a) A limitation on the scale of involvement of auditors in the joint supply of specific forms of non-audit work to 'reporting entities', to an upper limit of 20% of the audit fee;

(b) That the following activities be not permitted to be undertaken by an auditor of a 'reporting entity', regardless of fee: the drafting of accounting entries and preparation of financial statements; the provision of valuations of assets or liabilities; due diligence assignments; the provision of HR services and executive recruitment; management consulting and advisory services;

(c) That the following activities may be undertaken by an auditor of a reporting entity, without restriction: those elements of internal audit work that involve testing the integrity of accounting and information systems, and compliance with formal delegations and policies;

(d) That existing reporting requirements for disclosure of sums paid or payable to auditors for the provision of non-audit services be amended to require fuller descriptions of the non-audit services provided;

(e) That auditors engaged to express opinions on 'general purpose financial reports' be required to ensure that their audit working papers are subject to 'second partner review' before audit reports are signed.

I hope these brief observations are of assistance to the Committee.

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