



SUBMISSION TO THE REVIEW OF INDEPENDENT AUDITING BY REGISTERED COMPANY AUDITORS

DATE: August 6, 2002

TO: The Secretary, Joint Committee of Public Accounts and Audit

FROM: Institutional Analysis Pty Ltd

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Scope of This Submission

The purpose of our submission is offer the Committee some empirical data that our firm, Institutional Analysis Pty Ltd, has gathered in the course of a survey it completed comparing the audit and non-audit fees paid by Top 100 Australian public companies to their external auditors between 1992 and 2002.

Background: Why Are Non-Audit Fees a Concern?

An auditor's independence may be compromised in many ways. One area of concern that has attracted considerable attention is the performance of non-audit services for the audited company. This issue has been highly topical lately, with the US Securities and Exchange Commission paying particularly close attention to it.

The provision of non-audit services may jeopardise the independence of audits in a number of ways:

- An auditor may be inclined to deliver an unqualified report in order to ensure continued engagement in profitable consulting services.
- An auditor may be called on to audit their firm's own work (for instance, where the audit firm provides book-keeping services).
- In seeking to obtain non-audit work, an audit firm may reduce costs (and hence cut corners) in the audit process.

What Was The Information Source?

Companies listed on the Australian Stock Exchange are required to disclose, in their annual report, the level of audit and non-audit fees paid to the auditor. Our findings are derived from these disclosures.

The sample consisted of 80 of the Top 100 companies in the ASX.

The Top 100 companies were ascertained by reference to their market capitalisation in August 2001. Companies had to meet the following requirements to be eligible for the sample:

- the head office was within Australia.
- the company was incorporated in an Australian State or Territory.
- the company was a trading company, as distinct from a unit trust or investment vehicle.

The result was that there were 80 companies remaining in the sample.

Standout Survey Data for the Committee’s Consideration

The key findings from our survey were:

1) In the 2000-2001 financial year, the average company in the ASX Top 100 paid its audit firm non-audit fees of \$3,022,085 and audit fees of \$1,446,587. The ratio is approximately 2.09 : 1. *This means that for every \$100,000 spent on the external audit, approximately \$209,000 was spent on non-audit fees.*

2) Over the period 1992 to 2002, the total audit fees paid by the ASX Top 100 companies grew by 99.22%. During the same period, the total non-audit fees paid by the ASX Top 100 companies in our survey grew by 501.03%. *Non-audit fees grew 5 times as much as audit fees.*

The chart below illustrates the trend:

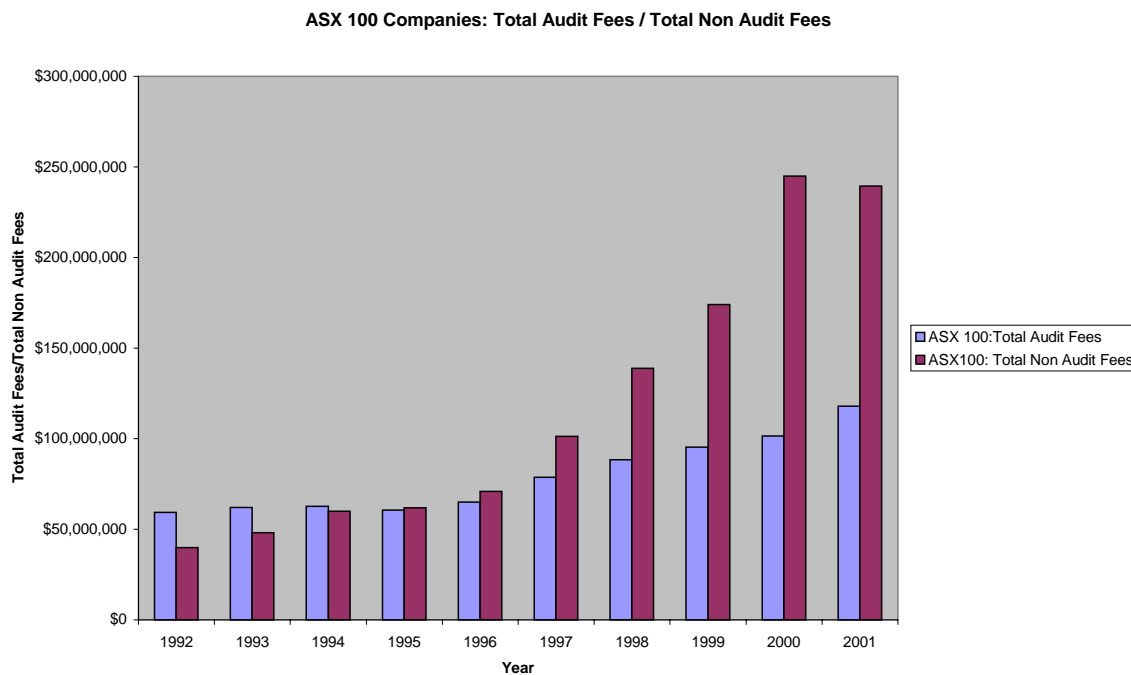


Table 1: ASX 100 Companies - Total Audit Fees / Non Audit Fees:

Year	Total Audit Fees	Total Non Audit Fees
1992	\$59,206,607	\$39,845,425
1993	\$62,004,386	\$48,069,519
1994	\$62,572,386	\$59,837,519
1995	\$60,621,996	\$61,843,648
1996	\$64,927,386	\$70,950,519
1997	\$78,709,186	\$101,229,172
1998	\$88,320,636	\$138,799,757
1999	\$95,312,087	\$174,080,133
2000	\$101,534,157	\$244,969,519
2001	\$117,954,088	\$239,482,427

About Institutional Analysis Pty Ltd

Institutional Analysis is a Melbourne-based advisory and research firm, specialising in corporate governance. The firm's professionals have economics, finance and/or legal training. The firm's principals are Dr Geof Stapledon and Jonathan Bates.

Institutional Analysis has a proprietary database system which enables rigorous and timely analysis of governance-related issues as they arise at S&P/ASX 200 companies. The database also enables the firm to provide objective and reliable analysis of relative governance performance among S&P/ASX 200 companies.

Institutional Analysis has a global partnership with Institutional Design Limited – a London-based consultancy which also specialises in corporate governance. Jonathan Bates is principal of Institutional Design.

Institutional Analysis and Institutional Design have had a range of mandates in the corporate governance area, including:

- Developing and evaluating governance structures and board processes for a major UK listed company.
- Developing an electronic voting platform.
- Researching trends in corporate governance in 11 East Asian countries for an Australian government analytical unit.
- Analysing trends in key governance structures / practices among the Top 100 Australian companies for an institutional investor industry association.
- Advising an institutional investor industry association on the different features of governance in listed property trusts, compared to listed companies.
- Advising the UK government on corporate governance and company law reform.
- Evaluating the governance of Russian companies for an international ratings agency.
- Evaluating the corporate governance environment of an Eastern European country for a multilateral financial institution.
- Advising an institutional investor industry association on the impact of takeovers laws on collective action by institutional shareholders.

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