



29 May 2002

Mr Adam Cunningham
Inquiry Secretary
Joint Committee of Public Accounts and Audit
Parliament House
CANBERRA ACT 2600

Dear Mr Cunningham,

Australian Stock Exchange Limited
ABN 98 008 624 691
Exchange Centre
Level 6, 20 Bridge Street
Sydney NSW 2000

PO Box H224
Australia Square
NSW 1215

Telephone 61 2 9227 0867
Facsimile 61 2 9227 0947
Internet <http://www.asx.com.au>
DX 10427 Stock Exchange Sydney

Review of Independent Auditing by Registered Company Auditors

Thank you for your letter dated 12 April 2002 providing the opportunity to make a submission on the Review of Independent Auditing by Registered Company Auditors.

We note that a copy of the ASX Response to the Ramsay Report, dated February 2001, has previously been provided to you for consideration of the Committee. A further copy is attached for your convenience.

The Response states our support for an effective and transparent system of oversight concerning external audits, and a system that ensures auditors are not compromised by conflict. The Response focusses on the question of mandating Audit Committees and the reasons for our strong view that ASX listing rules and guidance notes are not the appropriate vehicle for regulating the audit process.

In addition to ASX's position recorded in the Response, we would like to make the following comments for the consideration of the Committee.

- ASX supports a co-regulatory approach and considers that the ongoing role of the Professional Bodies, including review of the professional standards and ethical rules, should be a central plank in any reform.
- The issue of auditor independence is only one part of the broader question of the "quality" and reliability of external audits. Other factors which may affect audit quality include:
 - quality control systems within each audit firm;
 - quality control systems in the profession;
 - the level of audit fees
 - non audit services

In relation to non audit services, the defect in the audit process implicit in the discussion of the effect of non-audit services on auditor independence is that the client is so important to the firm's income stream that the auditor may have a propensity to look not too closely or to accept questionable explanations or in some other way show favour to the client. If that causality exists, the issue is

dependency rather than the level of non-audit services. Dependency is likely to be a function of total fee income from that client relative to overall revenue. Whether the fees are composed of all audit fees or a mixture of audit and non-audit is not necessarily the primary factor.

The cost to companies of enforced separation of audit and the spectrum of non-audit services is also a relevant factor in determining where the balance of cost/benefit may lie.

- ASX does not support a prescriptive approach to defining auditor independence. We consider that professional standards set and monitored by Professional Bodies will provide a more flexible and responsive tool for expounding principles and defining the term than can be achieved through legislation.
- Whilst no compliance system can guarantee that there will be no failures, an effective compliance system should catch problems before they become calamities. The Ramsay recommendation in relation to establishing an Auditor Independence Supervisory Board which would monitor compliance may provide such an effective and transparent system of oversight.

However, to the extent that existing bodies such as the Professional Bodies and the Company Auditors and Liquidators Disciplinary Board (with increased funding to meet additional responsibilities) could perform the role of monitoring audit quality (rather than the single aspect of auditor “independence”), this would prevent increased duplication of responsibilities and associated costs.

- ASX is also a strong supporter of international harmonisation of accounting standards and believes this would contribute to enhanced quality and efficiency of financial accounting practices.

Thank you again for the opportunity to contribute to the Review.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Christine Jones', with a stylized, flowing script.

Christine Jones
General Counsel and Company Secretary