

Mr Bob Charles,
Chairman,
The Joint Committee of Public Accounts and Audit,

Dear Mr Charles,

Subsequent to my previous email submission of 13 April, 2002, I draw the committee's attention to an article in the Australian Financial Review, dated 19 April, 2002, entitled "Accountants call for radical audit shake-up" where the writer reports, on page 18, that "the chief executives representing the big five firms oppose any restriction on non-audit services". The article continues "Audit quality will suffer if boards are restricted from utilising their auditors to undertake services other than financial statement audits".

I believe that none of these firms would deny that each of them can and does provide a very high degree of expertise in areas of non-audit services.

This being so, then their reported concern(that audit quality will suffer where other services are not undertaken by them) is readily eliminated if the others of them provide the services in their place.

In case some members might interpret the reported statements as containing an implication that, where a firm provides audit services, it must also provide other services to assist in the audit, I do not believe such an interpretation is intended.

Indeed, there will be a significant number of audit clients where the auditor performs no other services, simply because these are available within the client's organisation, are provided from non-accounting firm sources and/ or are not considered necessary by the board.

However, it is important to ensure that the auditor has unfettered access to the results of any and all other service work, no matter who undertakes this.

In the event that auditors of public companies are ultimately denied the right to provide both audit services and non-audit services to an audit client, it will be important to consider the timing of the implementation of the relevant legislation. There will be little benefit for the investing public if a change in legislation causes financial damage to the firms who are expected to provide reassurance by way of audit reports.

I say this for a number of reasons:-

Many audit firms will have existing non-audit service contracts in place and will have engaged personnel etc. to assist them in fulfilling these contracts. A reasonable time needs to be allowed so that these contracts can be completed. I would suggest that a period of 5 years would be considered reasonable and would cover most contractual arrangements currently in place. Submissions on exceptions would have to be considered on a case by case basis.

A transition period would also be needed so as allow for firms to reorganise their forward planning.

On this latter point, a preclusion against providing non-audit services to audit clients will have an impact on the opportunity and manner of "merging" within the accounting industry. E.g a firm will have to examine what work they can retain following a merger with another firm and what work will have to be foregone due to the fact that one firm might be carrying out a client's audit and another, with whom it is proposed to merge, might be the provider of non-audit services. Accordingly, a decision will have to be made as to which work will be retained and which will have to be foregone.

In such instances, merging could be made less attractive, more difficult and, in some instances, less valuable.

On the other hand, it may lead to larger non-audit providing firms and much larger audit firms. In either case, I would expect that the public benefit would be greater.

Notwithstanding the reported views of the big five firms, I see no justifiable reason to change my earlier recommendation that audit firms be precluded from providing non-audit services to audit clients.

Sincerely,
Brian L. Bolton FCA
4 Braeside Street,
Wahroonga, NSW, 2076