

Good Afternoon

Thank you for the opportunity to make a submission on this matter. I am sure that the accounting bodies and larger accounting firms have already canvassed the topic in much detail so I do not intend to labour the point.

For many years I have been involved in the teaching of ethics and I also spent many years as a government internal auditor at the federal level. The one thing that has struck me about audit independence is not the actual fact of whether there is or is not independence it is the perception which people have in their mindset about independence.

Where a public accounting firm receives a substantial income from consulting services and also undertakes audits of the same business, the general public is not in a position to separate the two aspects of the work. Hence there is a public perception that firms which originally undertook auditing assignments can now be influenced by the level of income generated from consulting activities.

I am aware that the big firms do everything within their organisations to separate accountants from one another so that there is a proper segregation of professionals within the organisation. That however does not appear to the general public. Some internal manuals actually encourage auditors to look for opportunities for the firm to do and generate additional income from the client. Even the mere suggestion is to distract the auditor from his/her task of auditing.

I am also disturbed at both large business firms and accounting practices entertaining each other at significant corporate functions like the grand Final for AFL and ARL, Spring Racing Carnival in Melbourne and the Grand Prix. This indicates a less than arms length relationship between the company and its auditor. How can an auditor form an independent objective opinion when under the influence of such hospitality. To the public perception there is a lack of independence.

Because it is the perception more than the fact that will ruin a career or a reputation I would like to make the following recommendation.

That ASIC be responsible for the allocation of company audits of the large (however defined) companies listed on the Australian Stock Exchange. In this way ASIC becomes the middle institution between the companies requiring an audit and the firms who can undertake the audit. This separation is necessary to show the market that there is integrity and honesty in the system and that there is both actual and perceived independence. ASIC could determine audits on a tender basis from the big accounting firms thereby ensuring that audits are undertaken at fair and reasonable cost to the companies.

To ensure that the process does not become too beaucratic, there needs to be some boundaries drawn by which firms over a certain criteria are under the control of ASIC for corporate audit purposes and that an alternative approach is adopted for firms outside of the criteria.

In other words. companies over say \$300 million sales revenue per year - their audits would be caught by the independent ASIC approach recommended above. Companies under the threshold could negotiate audits like they current do now.

Hope these brief comments are constructive

regards

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