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The Secretary
Parliamentary Joint Committee on Corporations and
Financial Services
Suite SG 64
Parliament House
CANBERRA ACT 2060

Dear Sir

CLERP (AUDIT REFORM & CORPORATE DISCLOSURE) BILL

Thank you for the opportunity to offer our views on this Bill. We appreciate the additional time you have allowed us to make our submission.

On behalf of the profession, The Institute of Chartered Accountants in Australia and CPA Australia provided a detailed submission to Treasury on 10 November 2003 ("the submission"). Together with other major international firms, BDO participated in the development of the submission. We fully support the submission and its recommendations and do not intend to repeat its contents.

However, there are a number of areas where the principles-based approach intended for reform has been obscured, or the practical implications of the Bill will create an unworkable regulatory environment.

In general terms, our concern would be that the introduction of the Bill in its present form will provide a significant disincentive for graduates to enter the accounting profession and aspire to partnership, particularly as an audit specialist. Such an outcome could only weaken the robustness of corporate regulation into the future while contributing little if anything to the integrity of the financial reporting regime.

Our specific observations are as follows:

Auditor Independence

The major practical difficulty which would be introduced by the Bill, is the definition of immediate family member. The inclusion of family members over whom an auditor is unlikely to have control means the auditor in many circumstances will be unable to sign an independence declaration. For example, it is not reasonable to expect an auditor to place conditions on and exercise a measure of control over the investment strategy of an adult sibling or parent. We strongly support narrowing the definition to an auditors spouse and dependant children.

We support the submission to Treasury, which suggests improvements to the definition of a "conflict of interest situation". In our view, the suggested changes reduce the degree of subjectivity created by proposed section 324CB.

Auditing Standards

We agree with the principle that auditing standards have the force of law. However, auditing standards can be developed and introduced into Law in the same manner as Australian Accounting Standards i.e. by reference. This is consistent with other jurisdictions. Similarly, auditing standards should be introduced prospectively, not retrospectively. Again, this would be consistent with Accounting Standards.

Auditing standards should not be disallowable instruments.

Rotation of Audit Partners

Rotation is a concept supported and adopted by the accounting profession and the Bill will reinforce our approach. Nevertheless, rotation will create practical difficulties for:

- Smaller audit firms;
- Smaller listed companies;
- Listed companies not located in major centres.

Potentially, the proposed rotation rules will reduce the options for listed companies when seeking to appoint an auditor.

Therefore, we support the recommendation that the rules relating to audit partner rotation be restricted to companies in the ASX All Ordinaries Index.

Expansion of auditors duties

An effective audit is dependant upon the quality of the relationship between the auditor and the audited body. The expansion of the auditor's duties has the potential to reduce the quality of the relationship if the auditor has a policing role. Therefore, we support retention of the existing section 311, which provides the audited body with the opportunity to remedy breaches of the law.

The requirement to report a breach or suspected breach within 7 days is impractical. The time period should be extended to 28 days.

The obligation to report should be limited to the lead auditor. Audits are designed to allow more junior members of staff to bring all relevant issues to the attention of the lead auditor, hence, other members of the audit team should be excluded.

Cooling off Periods for Former Partners and Employees

Sections 324CG to CI set out employment prohibitions and cooling off periods for former partners of audit firms, directors of audit companies, and retiring professional members of audit teams. In our opinion, as clearly set out in the submission, these regulations are excessive when compared with each of Sarbanes Oxley and the Ramsay report. Equally they may be considered to represent a restraint of trade.

In particular, with former employees, any limited advantage which may be perceived relating to independence is far outweighed by the severe restriction placed on employment opportunities for audit staff. This would be to the net detriment of the accounting profession as a whole in attracting and retaining the best quality staff.



Equally, with the restriction on former partners, we believe a two year cooling off period is more than adequate.

If you wish to discuss our comments further, please contact any of the undersigned.

Yours faithfully
BDO

A stylized, handwritten signature of Kevin Reid, consisting of a few simple, sweeping lines.

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A stylized, handwritten signature of Jeff Knott, featuring a prominent vertical stroke and a horizontal line.

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A handwritten signature of Geoff Brayshaw, written in a cursive style.

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