

Our Ref: NEHBB X\HARDING, Noel\CLERP9.doc

8 March 2004



Senator A Murray
51 Ord Street
WEST PERTH WA 6005

Dear Senator Murray

As the Principal of a small Accounting Practice providing services predominantly to the Not-For-Profit Sector I am concerned about one of the provisions included in the Bill currently before the Senate and commonly known as CLERP 9.

You may be aware that CLERP 9 relates to financial reporting and auditing obligations under the Corporations Act and overall includes helpful provisions. However, there is one provision that is very much to the disadvantage of the Western Australian community. I refer to the provision for compulsory rotation of auditors.

The compulsory rotation of auditors will eventually spell the death knell to the small accounting practice providing audit services, where those services require a Registered Company Auditor. As a consequence it has the unintentional consequence of favouring the very large Accounting Practices against the very small. Alongside this you need to add the difficulty of becoming a Registered Company Auditor under the current rules.

The provision in CLERP 9 for rotation of auditors requires the audit partner in a firm to be changed each five-year period. As a consequence of representations by the Accounting profession a special consideration was granted for smaller practices to allow for seven-year rotation. In my opinion this concession does not address the issues in any way.

My concerns are:

64. The "big 6" and middle tier accounting practices commonly have several partners who are Registered Company Auditors (RCA).
65. A significant number of metropolitan based small accounting practices have only one partner or principal who is an RCA.
66. In the rural and remote areas of Western Australia there are very few RCA's. A survey conducted by a group of Accountants in 1998 identified only 11.
67. Where only one RCA is available in an accounting practice, rotation is meaningless. It requires the client to change accounting firms.

68. In the larger firms with multiple RCA's, rotation is a simple matter – in practice, it means a change in the person who signs off the audit report. It does not have any significance whatsoever on the members of the audit team carrying out the actual audit work in those firms.
69. In the large accounting practices they have substantial audit staff led by team managers. The audit manager may be the same person for a far longer period of time than the five-year issue identified in CLERP 9.
70. The consequences for entities in remoter WA is significant in this situation. Gradually they will be obligated to move their audit services to the large city based practices at substantially increased cost. For Not-For-Profit entities with limited funds, this means a reduction in their core services.

Please reconsider this specific provision, which is intended well, but has detrimental and unintended consequences.

Yours sincerely



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