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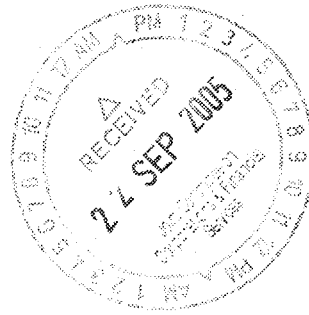
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21 September 2005



Committee Secretary
Parliamentary Joint Committee on
Corporations and Financial Services
Department of the Senate
Parliament House
Canberra ACT 2600

Inquiry Into Corporate Social Responsibility

Dear Sir/Madam

As a practicing lawyer, I have represented public and private corporations of various sizes for over 30 years. During that time, particularly in the context of representing large entities in contentious situations, I have come to the conclusion that corporate social responsibility (CSR) is matter for public and private concern and should be the subject of an annual audit similar to a financial audit.

I believe that mandatory examination will serve both the proprietary interest of the entity and the best interests of the public. I suggest that voluntary programs are simply not adequate and amount to mere window-dressing or public relations. CSR should be reviewed by an independent agent subject to its own code of professional responsibility.

Obviously, there are difficulties in applying CSR as if it were a financial audit. Financial audits have evolved over a long period of time and the accounting profession, working with regulators, has established internationally recognised standards and benchmarks. For CSR to have any meaning, there must also be standards and benchmarks regarding the audit procedure.

For CSR to be anything more than mere corporate public relations, an independent auditor must have access to the entity and must be permitted to make a report that will be disclosed to the shareholders and the public at large. Furthermore, as in financial accounting, the auditor should prepare a private letter for company management in which concrete suggestions are made. Through the management letter, the board and officers can consider various alternatives for the company.

Additionally, a CSR audit should be performed in a professional manner using people who are familiar with business and business practices. It would achieve very little to have an

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audit performed by a well-meaning and perhaps knowledgeable individual who does not understand the realities of modern commerce. In this regard, it is respectfully suggested that independent financial auditors could provide an important resource. Accounting firms have established a tradition of independence as well as business skills. While financial auditors are not generally equipped to conduct a CSR examination, the manner in which they conduct financial audits would be well-suited for a CSR examination if the proper people were engaged. Since the infrastructure or protocol for audits exist within the audit firms, it should be possible to augment their professional staffs with individuals who have an understanding of CSR.

The social utility of a CSR audit should not be predicated on amorphous concepts of achieving a so-called passing grade but rather it should provide an independent report of what the company is doing as a good corporate citizen. Initially, as a practical matter, CSR audits may only be well-suited and mandatory for organizations with a high annual turnover.

Of course, for CSR audits to be meaningful there must be some degree of audit uniformity. This is an area where government can establish standards. Various interests also should be given an opportunity to express areas of interest because CSR has different meanings to different people. CSR audits must be recognised as a legitimate reporting requirement. For example, an audit may show that a company spends less money on supporting civic activities than other companies of similar size. Such a fact is appropriate for reporting. In the confidential management letter, the auditor may go on to state to management that it would be advisable for the company to consider making an additional contribution of a certain amount to bring it more in line with other corporate citizens.

The virtue of reporting CSR factors is that it gives the public as well as the shareholders an understanding of how the entity is behaving within the community. Merely through the reporting of this information, consumers may be more motivated to patronise certain suppliers that demonstrate a strong commitment to CSR.

A possible mechanism to encourage entities to engage CSR audits is to require that any company seeking to supply any level of government with any good or service undergo periodic CSR audits. Such a requirement, although voluntary, would undoubtedly sweep in virtually all of the larger companies.

I firmly believe that corporate social responsibility should be a matter of routine examination for all medium to large entities. I am not writing on behalf of any corporate entity nor am I advocating on behalf of any audit or corporate social responsibility firm. The views expressed are mine based on my experience as a corporate lawyer.

Yours faithfully



Harry G Melkonian