



ASIC

Australian Securities & Investments Commission

BACKGROUND TO ASIC'S AUDIT INDEPENDENCE SURVEY

The survey was carried out with the assistance of the Group of 100, who sent out the questionnaires and collected the responses. The 28 questions were based on the requirements of the recently published IFAC international exposure draft on audit independence.

The aim of the survey was to improve the level and quality of factual information available to industry, governments, the accounting profession and regulators who are currently giving consideration to audit independence matters.

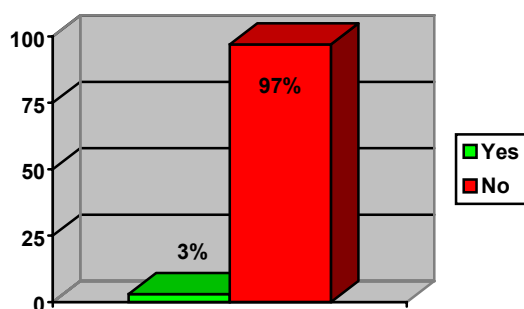
Issues arising from survey responses

The following summarises the survey questions and the responses.

In reading the comments regard should be given to the fact that 67 out of 100 companies responded. It has been assumed in the analysis that the respondents are typical of all of the 100 companies that comprise the Group of 100. An alternative view, which has not been assumed, could be that the non-respondents chose not to respond because their answers could have identified an auditor independence issue and that they were concerned about the confidentiality of the survey results.

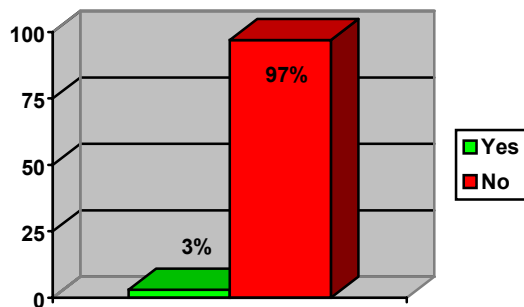
All responses were confidential and we are not in a position to follow up on individual responses with the companies.

Question 1: Have any of the directors, other corporate officers or executives (as defined in the Corporation Act) in your group previously been engaged (as partners or staff) in the last five years by your external audit firm?



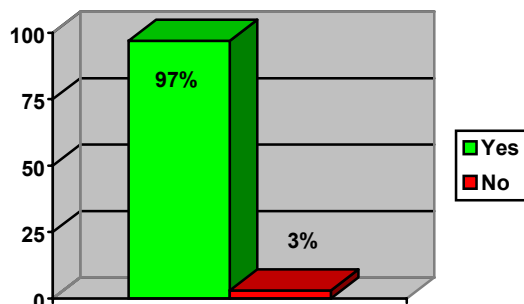
The percentage of respondents which had a director or senior executive who was previously employed by their external audit firm is low.

Question 2: Have any of the partners or senior managers of your current external audit team been employed in the last 5 years (as directors or staff) by your group?



As with question 1 the percentage is low. The Corporations Act 2001 at section 324(4) deals with this situation but covers a period of one year only and not the five years included in the survey question.

Question 3a: Do you have an Audit Committee?

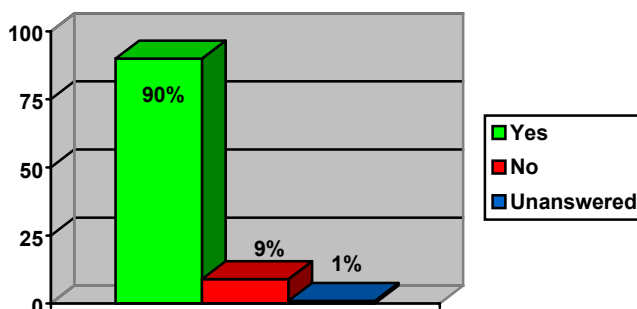


Only two of the respondents did not have an Audit Committee. ASX Listing Rule 4.10.2 recommends that all listed companies have an Audit Committee, but it is not compulsory.

Question 3b: If you do have an Audit Committee, what role does its charter give it in relation to the external auditor? Eg. Roles re appointment, approval of fee, attendance at meetings, etc.

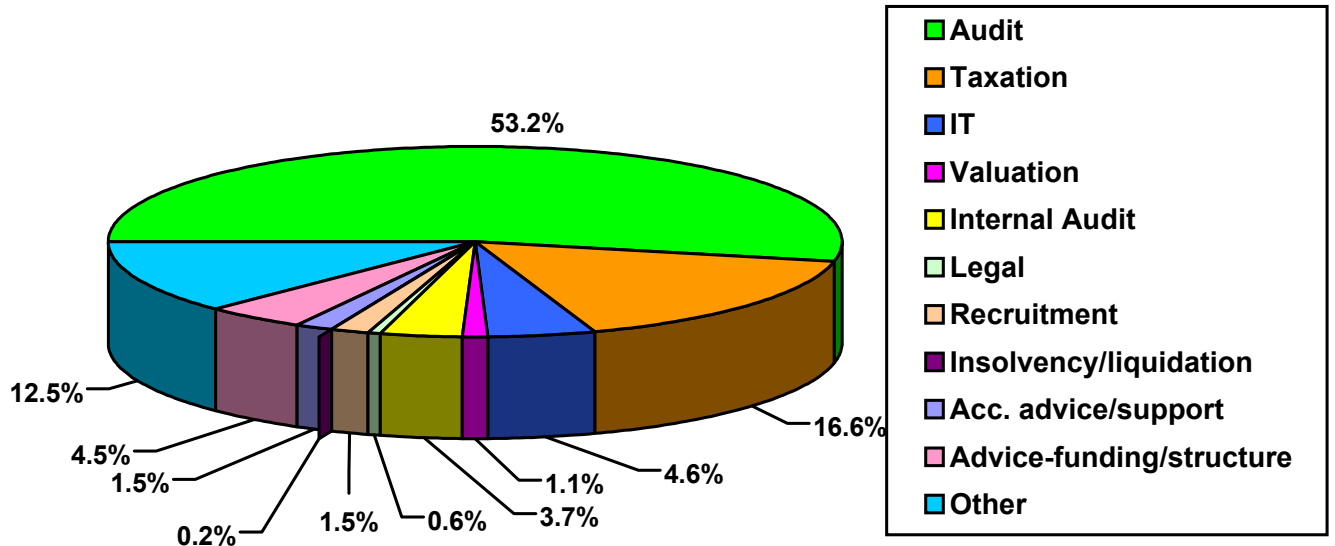
The responses of those with audit committees indicated that they had proper guidelines for their operation.

Question 4a: Does your external audit firm provide other services to your group?



Question 4b: If so, what are those services and what is the proportion of fee paid for each of them to the total fee the firm has received, eg audit, tax-compliance, tax-advisory, IT, valuation, internal audit, legal, recruitment, other.

The very large majority of respondents advised that their audit firm provides other services. A summary of the types of services provided is as follows:



The above statistics are indicative percentages only as there has been no weighting of the percentages to reflect the size of respondent companies.

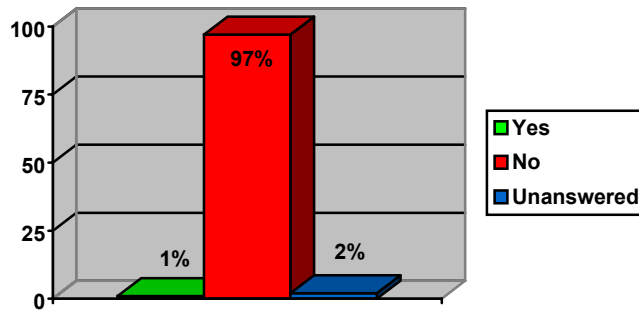
Care should also be taken in drawing conclusions from the above statistics as they may be affected by major 'one off' consultancy work in relation to the introduction of GST (allocated as Taxation and IT consultancy work), IPO or takeover activity that will reduce the percentage of audit fees as a percentage of total fees.

Question 5: What internal processes are in place in your group before the provision of other services by auditors can be undertaken?

The large majority of respondents indicated that there were no rigorous processes employed at the time of the requesting their external auditors to provide other services. Usually the Chief Financial Officer was the primary person responsible for engaging the external auditor in these roles.

It was not normal for the level of non-audit services to be given consideration by the board or the audit committee.

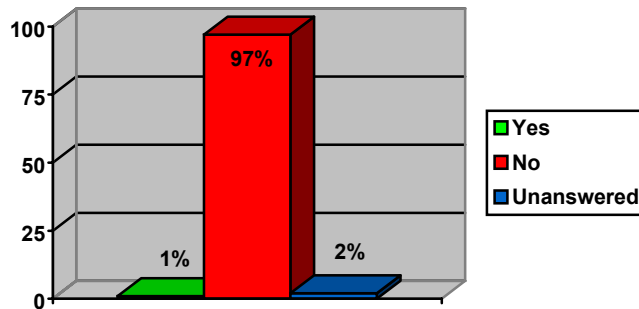
Question 6a: Are you aware of financial interests between your external audit firm (ie the firm itself) and your group? (eg loans to or from, shares held, shared investments)



Question 6b: If so, what is there nature and size?

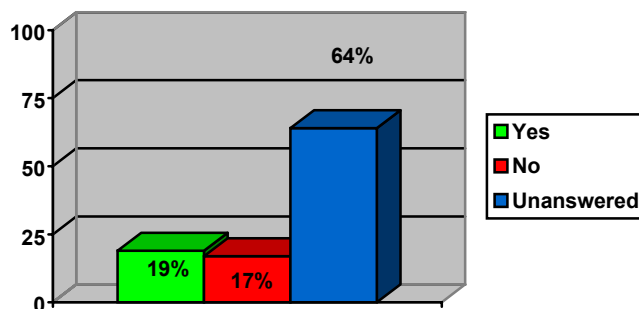
Almost all respondents indicated that there was no financial interest with their external audit firm. One respondent answered 'yes' and two did not respond to the question. We are unable to identify and follow up these three companies.

Question 7a: Are you aware of any financial interests between the members of your current external audit team and your company?



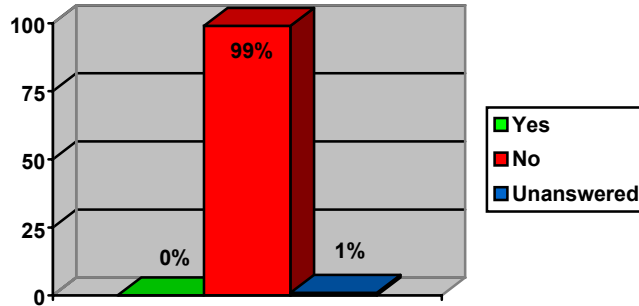
Question 7b: If so, what it their nature and size?

Question 7c: Have you made enquiries of your audit firm as to their existence?



Respondents indicated that they were not aware of any financial interest with their current external audit firm. One respondent answered 'yes' and two did not respond to the question. We are unable to identify and follow up these three companies. It appears that most companies do not formally enquire as to these financial interests.

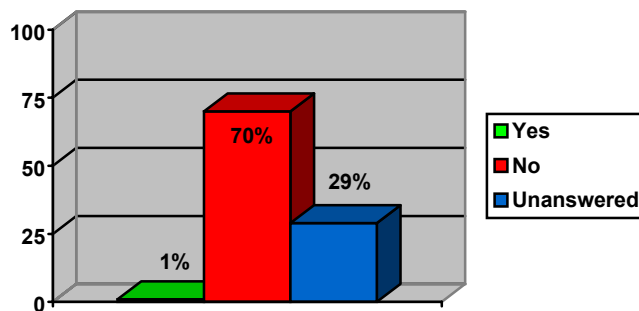
Question 8a: Are there any business interests (eg a joint venture or jointly owned company) between your external audit firm (or the external audit team) and your group?



Question 8b: If so, what is their nature and size?

There were no identified business interests between the respondents and their external auditors.

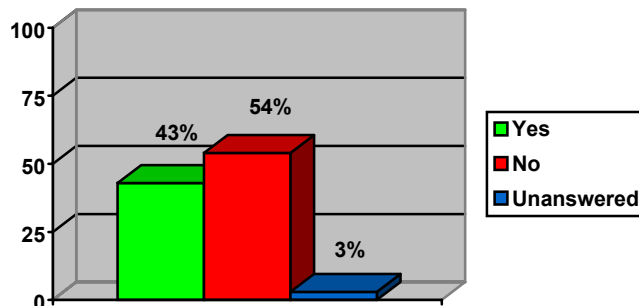
Question 9a: Does the superannuation fund of your external audit firm (if they have one) own shares or other investments in your group?



Question 9b: If so, what is their nature and size?

The respondents gave confused responses to these questions and 29% were unanswered. We have assumed that this is because the respondents often do not know about investments of their client's superannuation funds. These investments are often made through an investment manager and would not be readily identifiable.

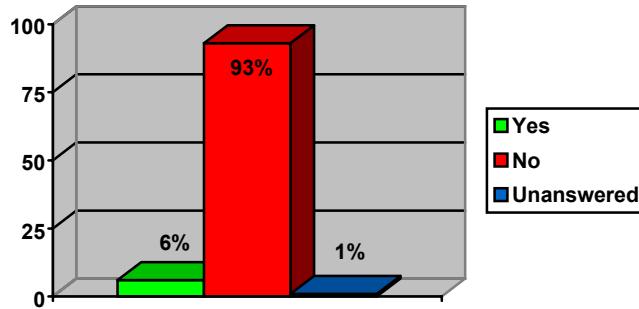
Question 10a: Does your external audit firm implement a policy of rotating audit partner and senior staff?



Question 10b: If so, what is it?

For those firms that did have a rotation policy the period varied between 2 to 7 years.

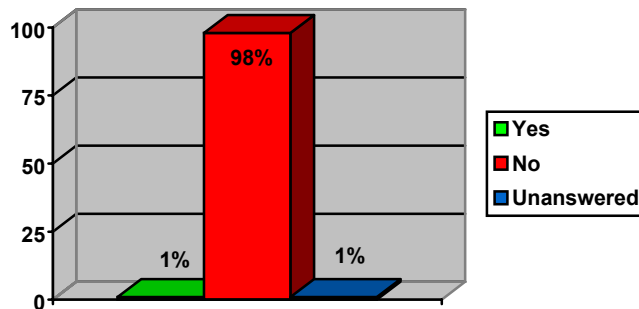
Question 11a: Does your company have a policy on rotating audit firms?



Question 11b: If so, what is it?

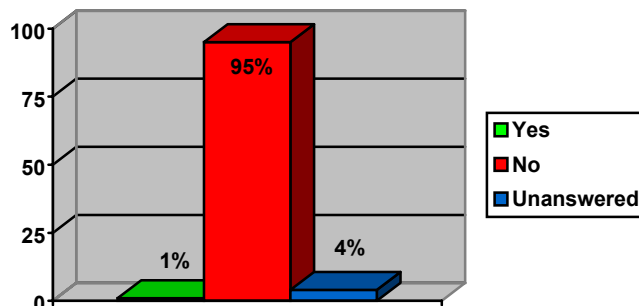
The vast majority of respondents advised that they did not have a policy of rotating audit firms. Of the few companies that rotated auditors the most common period was every three years.

Question 12: Has your group held back payment of external audit fees for an unreasonable time (say longer than six months) in the last two years?



Only one company responded that they had withheld audit fees for an unreasonable period of time however that company gave no details.

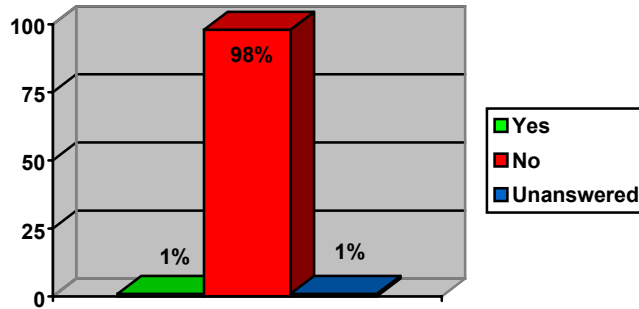
Question 13a: Is any part of any fees paid to your external audit firm by your group paid on a contingency basis?



Question 13b: If so, what proportion is it of the total fees paid to your audit firm?

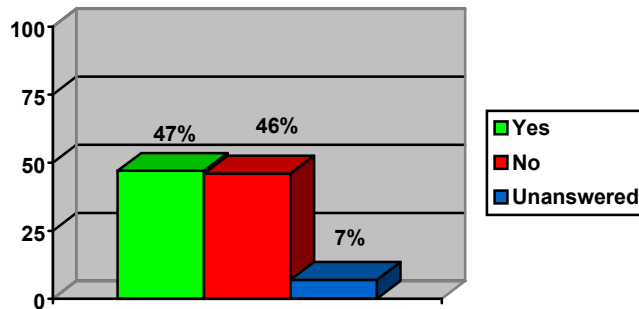
A large majority of respondents advised that they do not pay any fees to their auditor on a contingency basis. The fee that was contingent was less than 1% of the total fee.

Question 14: Is there currently any litigation in progress between your external audit firm and your group?



Only one company advised of current litigation with their auditor.

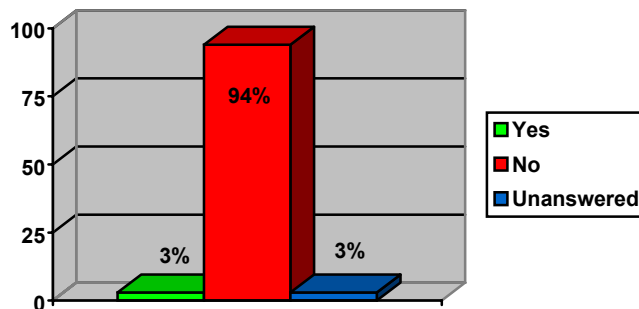
Question 15a: Does your group have any internal guidelines dealing with the receipt of hospitality or gifts from your external audit firm?



Question 15b: If so, what are the broad areas they cover?

The respondents were evenly divided between those that did, and did not, have internal guidelines on the receipt of hospitality from their external auditors.

Question 16a: Does your group offer discounts for purchases of goods and services to the members of your external audit firm or to the firm itself?



Question 16b: If so, please give a brief description

Only a very small number of respondent companies offer discounts to audit staff for the purchase of goods and services.